Financial Literacy and Financial Performance of Small and Medium Enterprises in Uganda

James Kizza

Department of Economics and Statistics, Kyambogo University, Uganda

Abstract:- **Financial literacy is the ability to use knowledge and skills to manage one's financial resources effectively for life time financial security (Mandell, 1997). When applied to business enterprises, financial literacy is aimed at ensuring sustainability of business by enabling the business utilize the financial resources effectively. This study investigated the relationship between Financial Literacy and Financial Performance of Small and Medium Enterprises (SMEs) using Kikuubo Shopping Centre –Kampala as a case study. The study was prompted by the high mortality of SMEs within their year of inauguration (Nangoli et al, 2013). The study objectives were: To investigate the relationship between financial knowledge and financial performance of SMEs; to establish the relationship between financial skills and financial performance of SMEs; to investigate the relationship between financial experience and financial performance of SMEs. Financial Performance was measured in terms of: Business survival, profitability and growth. The study employed a co relational study design and a total of 160 respondents from SMEs owners and employees took part in the study. Data were collected using questionnaires and interview guides and both descriptive and inferential statistics were applied to the collected data. The study established that: a positive moderate and significant relationship exists ($r=0.4799$, $p<0.05$) between financial Knowledge and financial performance of SMEs; a positive strong and significant relationship exists ($r=0.6663, p<0.05$) between financial skills and financial performance of SMEs and a positive strong and significant relationship exists ($r=0.6508, p<0.05$) between financial experience and financial performance of SMEs. It was thus concluded that financial literacy is very key in promoting the financial performance of SMEs. The study recommends that financial literacy programs be incorporated in the various engagements of stakeholders through workshops and seminars with SMEs owners; and encouraging partnerships with financial institutions to provide customized financial literacy education to SMEs.**

Key words: **Financial Literacy; Financial Performance; Small and Medium Enterprises; Knowledge based economy**

JEL codes: G2, G21, M1, M13

I. INTRODUCTION

The study examined the relationship between financial literacy and financial performance among Small and Medium Enterprises (SMEs) in Kampala. Financial literacy and efforts for its improvement have been in place for many years (Braustein & Welch, 2002). Braustein & Welch (2002) however argue that creation of programs to help people enhance their financial literacy is a new phenomenon. According to Cooperative Extension Service (CES, 2000), the 1900's experienced realization of financial literacy as a necessity for financial well-being. Financial literacy is now globally recognized as a major factor in the economic stability and development of SMEs and several countries in the world are promoting financial education as a tool of fighting poverty (UN, 2002; Abiodun & Harry, 2016). Dodaro (2011) refers to financial education as the process whereby individuals improve their knowledge and understanding of financial concepts, services, and products.

This study was guided by the Resource - Based View theory (RBV) developed by Wernerfelt in 1984 from the theory of the growth of the firm. It is found on the premise that firm resources are fundamental determinants of competitive advantage and performance. According to the theory, firm resources are its assets and strengths that are controlled by a firm enabling it to plan and implement strategies that improve its organization efficiency (Peterf & Barney, 2003). The theory lays emphasis on intangible resources as opposed to tangible resources. Intangible resources include; tacit knowledge, human capital, consumer relationship and others (Foss, 1997).

Financial literacy has been defined by OECD (2011) as knowledge of making informed decisions pertaining to certain personal finance areas like investing, tax planning, insurance, saving and retirement (OECD, 2011). OECD (2013) conceptualizes financial literacy as the awareness, knowledge, skill, attitudes and behavior that enables an individual to make prudent financial decisions that improves one's financial wellbeing. Mandell (1997) defines financial literacy as the ability to use knowledge and skills to manage one's financial resources effectively for life time financial security. Financial literacy enables the firm survival and performance through the effective utilization of financial knowledge, skills, attitudes and experience (Abiodun & Harry, 2016). The Presidents Advisory Council on Financial Literacy, (PACFL) 2008) define financial literacy as the ability to use knowledge and skills to manage financial resources effectively for a life time of financial well-being. Krechovska (2015) quotes the ministry of finance of the Czech Republic (2010) on the three basic components of financial literacy in the context of managing personal or business finances to involve: Money literacy-ability to manage cash and non cash money accompanying transactions; Price Literacy – understanding prices and the time value of money; and Budget literacy – ability to manage own budget.' Hung, Parker & Yoong

(2009) conceptualized financial literacy as financial knowledge, attitude and awareness that eventually translates into improved firm performance. Rahmandoust et al., (2011) highlight the importance of financial literacy in the entrepreneurs'' success. Kimunduu, Erick & Shisia (2016) etstablished the existence of a strong positive relationship between financial literacy and financial performance of SMEs.

Bryant (2013) states that economic growth is rooted in the financial literacy of individuals. Hastings et al., (2013) argue that financial literacy plays an important role in helping ensure the financial health and stability of individuals, families, enterprises and national economies, and that without financial literacy, individuals are unable to optimize their own welfare. In this study, financial literacy was measured in terms of: financial knowledge, financial skills and financial experience within the SMEs. Financial knowledge refers to the ability of an individual to understand key financial concepts such as risk and interest (Esiebugie., Agwa & Asenge, 2018). Financial knowledge tested the awareness and understanding of financial concepts and procedures for use in business, such as, knowledge on book keeping, interpreting reports, resource allocation and utilization.

Financial skills refer to the competences possessed by a person in the use of financial knowledge, such as, budgeting, book keeping skills, saving skills, entrepreneurship skills and banking services access skills (Kimunduu, Erick & Shisia, 2016). In this study, financial skills tested the competences possessed by a person in the areas of budgeting, financial analysis, and credit management skills. Financial experience is the experience of individuals with handling and investing in different financial assets. Sami, Khizar & Ishtiaq (2019) argue that the risk taking behavior of individuals is affected by their level of financial experience and when disaggregated by gender, financial experience makes men more willing to take on risk while it makes women more risk averse. In this study, financial experience is measured in terms of real life experience one acquires with using money as s/he manages the business.

According to Ayyagari & Demirguc-Kunt (2005), there is no universally acceptable definition for Small and Medium Enterprises (SMEs) as the definitions of SMEs vary from country to country defined in terms of employment, sales/revenue turnover and total assets. The Uganda Investments Authority (2014) defines SMEs as enterprises employing between 5 to 500 individuals with an annual sales/revenue turnover of maximum Ugandan shillings 360 million and total assets of maximum Ugandan shillings 360 million. This study adopts the definition of SMEs provided by the Uganda Investments Authority (2014). Bititci, Turner & Begemann (2007) view financial performance to be a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues. It measures the overall financial well-being of firms over a given period of time. In this study, financial performance was expressed in terms of business survival, profitability and sales growth.

Uganda has an estimated number of 1,069,848 SMEs in urban and rural areas accounting for 90% of the private sector employing over 2.5 million individuals (Cocchetti & Kharoobi, 2012). Kikuubo shopping center has a number of SMEs ranging from trade, manufacturing and services SMEs (Global Entrepreneurship Monitor Report, 2008). There are between 1,000 and 2,000 wholesale and retail traders in Kikuubo (Daily Monitor, 28th, June, 2016). In a study on the drive of business failure among SMEs in Kampala, it was revealed that 25% of the SMEs in Kampala shut down due to financial related issues (Nangoli et al, 2013).

1.1 Problem statement

Financial literacy is an important factor to the financial performance of any organization. It has been shown that financial literacy is essential in improving transparency, efficiency, accuracy and accountability resulting in organizations achieving their objectives (Koitaba, 2013). The success of SMEs 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 SMEs continue to struggle during their lifetime and as a result, many firms perform dismally and fail to grow. It is generally known that there is a high mortality rate of SMEs within the first two years of their birth (Global Entrepreneurship Monitor Report, 2008). Given this high failure rate, it becomes vital to research the factors required to enable the SMEs to survive and indeed progress to the growth phase of the organizational life cycle (Kamunge et al., 2014). Financial training is one of the factors that impact positively on the growth of SMEs because entrepreneurs with adequate financial literacy are better placed to adapt their enterprises to constantly changing business environments (King & McGrath, 2002).

1.2 Purpose of the study

The purpose of the study was to examine the relationship between financial literacy and financial performance of SMEs in Kikuubo Shopping Centre. Specifically the study sought to: 1) examine the relationship between financial knowledge and financial performance of SMEs 2) establish the relationship between financial skills and financial performance of SMEs 3) investigate the relationship between financial experience and financial performance of SMEs in Kikuubo Shopping Centre.

II. RELATED LITERATURE

2.1 Financial knowledge and financial performance

Studies conducted on the relationship between financial literacy and financial decision making suggests a strong positive association between financial literacy and financial outcomes (Hilgert et al., 2003; Christelis et al., 2010; Smith et al., 2004; Lusardi and Mitchell, 2007). D'Amboise and Gasse (2006) studied the use of financial statement analysis by small manufacturers in Quebec, Canada and found that small manufacturers in shoe and plastic industries formally undertook the analyses based on financial statements and found that manufacturing firm managerial decisions were largely based on the financial reports prepared.

The research conducted by DeThomas and Fredenberger (2005) found that 81 percent of the small enterprises regularly obtained summary financial information. The study further found that 61 percent of respondents felt the financial statements provided the information they required for planning and decision-making. Nevertheless, only 11 percent of respondents reported that they had used financial statement information formally as part of managerial evaluation, planning and decision making.

Esiebugie., Agwa & Asenge (2018) studied the effect of financial knowledge on the performance of small and medium scale enterprises in Benue State, Nigeria. The study concluded that financial knowledge and attitudes influences the performance of small and medium scale enterprises. An individual that possesses basic knowledge of key financial concepts and ability to apply them in making financial decisions has high chances of making good financial decisions that will enable the survival and success of the business enterprise (Atkinson & Messy, 2012). Financial knowledge enables an individual to make prudent financial decisions on the financial commitments, investment in financial securities, how much to spend, how much debt one can take and ably handle at any given time so as to avoid the risk of fines associated with none or delayed loan repayment. Financial literacy is said to increase with one's level of education (Thaler, 2013).

Research indicates that financial knowledge is directly correlated with financial performance (Hilgert et al, 2003). In a seminal work on the impact of financial knowledge by Bernheim, Gurrett and Maki (2001), it was revealed that middle age individuals who took a personal finance management course to improve their financial knowledge tended to save a high percentage of their income compared to others who did not do the course. The lack of financial knowledge is said to have a negative effect on the financial performance at the workplace (Joo and Grable 2000; Volpe, Chen and Liu, 2006).

Financial knowledge is important in making individuals learn and widen their entrepreneurial quality, ability and behaviors (Alutu and Uzamere, 2011). Braunstein and Welch (2002) pointed out that obtaining additional financial knowledge can lead to improved financial attitudes. Kidwell and Turrisi (2004) indicated that firms with better financial knowledge keep detailed financial records and have a more competitive advantage in accessing external funding than their counterparts who keep not. Furthermore, Bernheim and Garrett, (2003) indicated that greater financial knowledge would help overcome recent difficulties in advanced credit markets. OECD (2005) points out that financial literacy prepares consumers for tough financial times through strategies that mitigate risk such as accumulating savings, diversifying assets, and purchasing insurance. Financial knowledge is associated with positive effects of improved wealth management and financial stability (Panos et al., 2016). Financially literate entrepreneurs tend to perform better in most of the entrepreneurial performance indicators than the less financially literate (Panos et al., 2016). Financial education is associated with increased saving efforts as it makes people aware of the various financial instruments that they can save in and how to manage risk (Gustman., Steinmeier & Tabatabai (2010). It is prudent for individuals, firms, organizations or business enterprises to acquire financial knowledge in order to make sound financial decisions in the areas of personal finance as related to real estate, insurance, investing, savings, tax planning, retirement, time value for money, borrowing and saving etc. (PACFL, 2008).

2.2 Financial skills and financial performance

Financial knowledge is necessary but may not be sufficient to make prudent financial decisions. Knowledgeable people may lack the right skills needed to manage the financial resources (Chetambe & Sakwa, 2013). Financial skills are significant tool for managing business finance (Miller et al., 2009). Financial skills are linked to the usage of financial products that enable investors to evaluate and compare financial products, such as bank accounts, saving products, credit and loan options, payment instruments, investments, insurance coverage, so as to make optimal decisions (Miller et al., 2009). The ability to make informed financial decisions is manifest in efficient allocation of financial resources that translates into improved financial stability (Klapper, Lusard & Panos, 2013). Rwakakamba (2011) described Uganda as a graveyard of business start-up. He argues that family members constitute the main source of labor in most of these businesses regardless of their financial knowledge and skills.

Njoroge (2012) believes that individuals with financial skills are not likely to be intimidated by the complexity of the financial system and therefore stand a great chance of exhibiting financial competences. In a study by Nunoo and Andoh (2012) in china, it was revealed that financial skills are crucial in stimulating the SMEs sector. Similarly, financial skills tends to equip individuals with financial knowledge necessary to create household budgets, initiate savings plans, and make strategic investment decisions (Greenspan, 2002). Accordingly, Hilgert et al., (2003) contended that financial skills directly correlate with self-beneficial financial behavior.

Garcia-Teruel and Salano (2007) investigating the effects of working capital management on profitability of a sample of Small and Medium Spanish firms revealed that managers can create value by reducing their inventories and number of days for which their accounts are outstanding. It was also strongly stated that this is only possible if the firms have financially skilled human resource. Fox et al., (2005) in their studies found no correlation between financial literacy and financial performance. Lusardi and Mitchell (2006) indicated that people who never had any business education performed better than those whose enterprises were being run by people who were perceived as having enough literacy in financial matters. Other studies support a relationship between financial education as a mechanism for boosting financial literacy and positive financial outcomes (Kotzè & Smit, 2008).

2.3 Financial experience and financial performance

A great deal of literature explores characteristics of the entrepreneur related to human capital, financial experience and social capital factors affecting firms' performance. Becker (1975) described human capital as the skills, experience and education in which an individual or firm invests. Experience has been said to add to an individual what education alone cannot. Experience and knowledge are extremely important, as it provides time to recognize opportunities, develop contacts and learn how to access and to interact with funders. Atkinson & Messy (2012) have argued that much as financial literacy may increase with age, at times age may reduce financial literacy in situations where the old become less willing to take on new financial products that they are not used to. Atkinson & Messy (2012) make a general observation that financial literacy tend to be higher among adults in the middle of their life cycle and usually lower among the young and elderly individuals.

Karlan & Valdivia (2011) and Drexler, Fischer, & Schoar, (2014) argue that entrepreneurs require financial experience to always infer during decision-making activities concerning resource acquisition, allocation and utilization because in all the decisions, the analysis of past and future benefits and costs are vital. However, individuals and micro-entrepreneurs often lack sufficient financial experience to make the complex financial decisions they face. Kotzè & Smit (2008) noted that financial literacy among youth entrepreneurs contributes meaningfully to their entrepreneurship skills. If individuals are illiterate concerning their personal finances, their financial management of new ventures will also be lacking and will lead to reduced new venture creation and possible failures of SMEs (Kotzè & Smit, 2008).

Hatega (2007) found that many SME owners/managers have limited information on financing products, personal financial management and lack financial knowledge, skills and experience to carry out budgeting, proper book-keeping and financial planning. Bitature (2010) observed that many citizens of developing nations including Uganda lack financial literacy and management skills and this accounts for low levels of wealth creation. Financially illiterate individuals are more unlikely to demand and invest in financial products for the purpose of wealth creation and capital accumulation since they are not aware of the financial products and their related benefits.

Kakuru (2008) indicates that lack of financial literacy is often tied to lack of access to financial products including credit or failure to use them even when they are available. Turyahikayo (2015), found out that low financial literacy levels remained a key hindrance for SMEs in accessing finance from financial institutions. According to the Prudential Research Study (2014 -2015) on the financial experience and behaviors among women it was revealed that women are increasingly making financial decisions in their Households. The research highlighted among the perceived impediments to reaching financial goals as not having enough disposable income and lack of familiarity with financial products in the sense that they simply do not know what to consider when evaluating their options, and the financial jargon used to describe the financial products. The research concluded that understanding of financial products tends to correlate with usage while lower understanding financial concepts (mutual funds and annuities) is matched by limited use of those products by women.

III. METHODOLOGY

This study employed a correlation study design to establish relationships between the study variables. The study's target population consisted of members of the Kikuubo Business Community. Kato (2016) reported that the Kikuubo Business Community has between 3500 and 4000 business persons. Out of the many SMEs in Kikuubo shopping zone, 20 SMEs were conveniently selected and their directors and managers purposively selected. From each of the selected SMEs the researcher targeted a population of not less than 5 persons until the desired population was attained.

The study was limited to two variables, financial literacy and financial performance. Financial literacy was measured using constructs of financial knowledge, financial skills and financial experience. Financial performance was studied using constructs of business survival, liquidity, profitability and growth. The study covered a period of four years from 2013 to 2016 and in this period financial literacy has attracted a lot of attention of recent from both developed and emerging economies.

The study used a sample size of 160 persons selected from 20 SMEs in Kikuubo comprising of trading and Services SMEs. More than half of the respondents as represented by 91 (57%) were female while only 69 (43%) were males. The majority of the respondents 100 (62.8%) were between 30-50 years, 46 (28.6%) of the respondents fell within the age bracket (21-30) and only 14(8.7%) of the total respondents were 50 years and above. Out of the 160 respondents, 87 (54%) were involved in trade related businesses while 73 (46%) were in services. Of the 160 respondents; 27 (17%) had a bachelors degree; 32 (20%) had a diploma level of education, 48 (30%) had a certificate level of education while 53 (33%) were either primary or secondary school drop outs.

Both primary and secondary data sources were used. The content validity index (CVI) for the questionnaire was 0.79 while the reliability of the instrument was tested using

Cronbach Alpha Coefficient. The reliability test results were: financial knowledge 0.775; financial skills 0.852; financial experience 0.759 and financial performance 0.822. The data collected was analyzed using both descriptive and inferential statistics. Tests for multicollinearity, correlation tests, multiple regression and parameter estimates were done. The researcher ensured respondents' consent and voluntary participation in the study. The theoretical model that guided the study is given as:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \mu$$

Where Y is financial performance of SMEs

α is the intercept

$\beta_1 - \beta_3$ are the coefficients

X_1 is financial knowledge

X_2 is financial skills

X_3 is financial experience

μ is the error term

IV. RESEARCH FINDINGS

The following null hypotheses were tested:

$H_0 1$: There is no relationship between financial knowledge and financial performance of SMEs

$H_0 2$: There is no relationship between financial skills and financial performance of SMEs

$H_0 3$: There is no relationship between financial experience and financial performance of SMEs

4.1 Correlation tests

Table 1 Testing for multicollinearity of Independent variables

Variable	VIF	1/VIF
Knowledge	1.79	0.558
Skills	2.75	0.363
Experience	2.78	0.36
Mean VIF	**2.44**	

Source: Primary data

Dependent variable: Financial performance of SMEs

The collinearity tolerance (1/VIF) for all predictor variables were greater than 0.1 (10%) with the corresponding variable inflation factor (VIF) for all variables ranging between 1.79 and 2.78 which was within the recommended interval of 1 and 10 implying non existence of any multicollinearity. The estimators computed were thus considered reliable.

Table 2: Correlation matrix

	knowledge	Skills	Experience	Financial Performance
Knowledge	1			
Skills	0.6246**	1		
Experience	0.6293**	0.7792**	1	
Financial Performance	0.4799*	0.6663**	0.6508**	1
**p=0.05				

The correlation matrix in Table 2 was run to test the relationship between the study variables and the dependent variable. The correlation matrix revealed that:

$H_0 1$*: There is no relationship between financial knowledge and financial performance of SMEs*

The matrix shows the existence of a moderate significant positive relationship between financial knowledge and financial performance of SMEs (0.4799; $p \prec 0.05$). This implies that financial knowledge influences financial performance of SMEs. The null hypothesis is rejected.

From the qualitative responses, respondents attributed the excessive use of manual records to the high costs associated with computerized accounting systems as one respondent observed:

> *"There are several issues that arise when it comes to the use of computerized accounting systems. First of all, they are expensive to acquire. Secondly, they are complex to operate which necessitates the availability of an expert around to operate them"*

Another respondent remarked;

> *"I understand there are many computerized accounting systems that we could use. Some traders use Tally, whereas a few business men use QuickBooks. I know some SACCOS around that use CoBIS Banking Software…but the costs are just too high. I have to buy the computers, I have to buy the software, I have to pay a tutor to learn the package…technically, and there is a lot of money and time involved before one is familiar with the system"*

It was also revealed that most SMEs run without any formal budget in place as one respondent remarked:

"for us we start a business specifically for profits. In this way, we keep a closer look on our expenses and incomes. That is all we need. As a business man, I do not really set up a strict budget per se, we just run the business…"

$H_0 2$*: There is no relationship between financial skills and financial performance of SMEs*

The matrix shows the existence of a strong significant positive relationship between financial skills and financial performance of SMEs (0.6663; $p \prec 0.05$). This implies that financial skills influence financial performance of SMEs. The null hypothesis is rejected.

During the interviews on credit management skills, one of the respondents observed that:

> *"To our irregular customers we never offer them credit because that is very risky. However, for our daily or regular customers we offer them goods on credit. The terms that we state for our customers include the expected payment date, any cash discount offered for prompt payment".*

Another respondent said:

> *"Besides the trust, based on the history of the customer, our enterprise carries out credit analysis. Sometimes we contact the bank for information or even go through the financial documents of the customer. All this is done to be sure about the likelihood of customers to pay their debts".*

$H_0 3$*: There is no relationship between financial experience and financial performance of SMEs*

The matrix shows the existence of a strong significant positive relationship between financial experience and financial performance of SMEs (0.6508; $p \prec 0.05$). This implies that financial experience influence financial performance of SMEs. The null hypothesis is rejected.

During one of the interviews with a business owner in Kikuubo on how financial experience has improved business financial performance, he revealed that;

> *"In this kind of business, we have mastered the art of using loans. We depend on loans so much in order to import our goods, clear them at the border or help pay taxes. We are usually working against the time schedule of loans and we are serious on paying them back in time since if you miss paying it back in time and people get to know that, then the loan people will not give you loans again. That makes you lose credibility."*

4.2 Regression analysis

The regression analysis was done to determine the extent to which financial Literacy predicted variances in financial performance of SMEs in Kikuubo shopping Centre. The results are presented in Table 3.

Table 3: Regression of coefficients (Parameter estimates)

Variable	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]	
Knowledge	0.027	0.022	1.25	0.212	-0.016	0.070
Skill	0.422	0.030	13.96	0.000	0.362	0.481
Experience	0.326	0.029	11.41	0.000	0.270	0.382
Cons.	0.705	0.065	10.9	0.000	0.578	0.832

The estimated equation is thus:

Y=0.705+0.027 (knowledge) +0.422 (skills) + 0.326 (experience)

Where Y is the financial performance of SMEs.

The findings revealed that among all the study constructs possession of financial skills contributes most to the financial performance of SMEs ($\beta = 0.422$), followed by financial experience ($\beta = 0.326$), and financial knowledge contributes least ($\beta = 0.027$). A unit increase in financial skills improves financial performance of SMEs by 42% and so on. The regression model summary is shown in Table 4.

Table 4: Regression Model Summary

Source	SS	df	MS	Number of obs	=	1760
				F(3, 1756)	=	559.08
Model	1315.902	3	438.634	Prob > F	=	0.000
Residual	1377.689	1756	0.785	R-squared	=	0.489
				Adj R-squared	=	0.488
Total	**2693.591**	**1759**	**1.531**	**Root MSE**	**=**	**0.886**

Source: Primary data, 2019

The model reveals that the predictor variables explain 48.8% of the financial performance of SMEs. The difference between the R squared and the R adjusted is only 0.001 implying that the model fit is very good. The F test is also significant indicating that our regression equation fits well the data set used in the analysis.

V. DISCUSSION OF FINDINGS

5.1.1 Financial Knowledge and Financial Performance of SME

The first objective of the study was to establish whether there the relationship between financial knowledge and financial performance of SMEs in Kikuubo shopping centre. The research findings indicated the existence of a moderate significant positive relationship between financial performance and financial knowledge, *($r = .4799, p < 0.05$)*, which is in agreement with earlier findings in studies carried out by Hilgert et al., (2003); Christelis et al., (2010); Banks et al., (2010); Smith et al., (2010); Lusardi & Mitchell, (2011); Volpe et al., (2006); Alutu & Uzamere,(2011).

The finding that SMEs in Kikuubo Shopping Center keep records of income and expenditure; appreciate the use of loans to develop the business and prepare business reports is supported by Kidwell and Turrisi (2004) observation that firms with better financial knowledge keep detailed financial records that enable them easily access funding from financial institutions. SME respondents studied were clear that to access loans one needs to maintain proper books of accounts

The key limitation to financial knowledge and financial performance lies in the excessive reliance on manual records and some businesses operating without a formal budget. Budgets are a key component to financial discipline and operating without formal budgets may explain why several SMEs have a short life span as observed by Nangoli et al, 2013. Of all the predictor variables studied, the possession of financial knowledge posited the lowest influence on financial performance of SMEs ($\beta = 0.027$) which supports Chetambe and Sakwa (2013) argument that financial knowledge is necessary but not sufficient to aid prudent financial decision by SMEs.

5.1.2 Financial Skills and Financial Performance of SME

The study established the existence of a strong significant positive correlation, ($r = .6663, p < 0.05$) between financial skills and financial performance of SMEs in Kikuubo Shopping Centre. The findings collate well with research findings by Lusardi & Michell (2006); Nunoo & Andoh (2012); and Greenspan, (2002). The findings support Miller et al., (2009) proposition that possession of financial skills by an individual(s) is key when it comes to managing business finance and making prudent financial decisions. It could not be established whether the lack of participatory budgeting was negatively affecting the performance of SMEs as long as the SME owners were directly involved in the management of these SMEs. This finding may not be in support of earlier research findings by Fox, Bartholomae and Lee 2005; Lusardi 2003; Mandell 2005 that found no correlation between financial literacy and financial performance since the key decision makers of these SMEs may not be financially illiterate much as the employees may be.

5.1.3 Financial Experience and Financial Performance of SMEs

The study findings revealed the existence of a strong significant positive correlation, ($r = .6508, p < 0.05$) between financial experience and financial performance of SMEs. Experience provides time to recognize opportunities, develop contacts and learn how to access and interact with funders. According to Kotzè & Smit, (2008), financial experience is needed by SME employees and entrepreneurs during decision-making activities concerning resource acquisition, allocation and utilization. This view is also echoed by other scholars like: Karlan and Valdivia, (2011); Lyons, *et al.*, (2007); and Drexler, Fischer, & Schoar, 2014). Baron & Markman, (2003) have argued that financial experience as part of human capital is an important aspect in positive firm performance. Experience is said to add to an individual what education alone cannot. The study found that out of experience in dealing with various financial institutions, SMEs were able to reduce business risk by investing in various businesses.

The findings revealed that SMEs are deficient in the area of risk management and an inherent risk where at times money borrowed by the business is not invested in the business. The insufficient capacity in risk taking may be linked to limited experience in financial planning (Hatega, 2007) and lack of sufficient financial experience to make complex financial decisions (Kotzè & Smit, 2008). Kuratko & Hodgetts, (2001) argue that risk taking is usually linked with entrepreneur experience and that mainly successful entrepreneurs are risk takers. From the interviews held, it was revealed that possession of sufficient experience in dealing with various financial products had enabled SME owners to carry out prudent financial decisions.

5.2 Conclusions of the study

5.2.1 Financial Knowledge and Financial Performance of SME

There exists a moderate significant positive relationship between financial knowledge and financial performance. The need to access financial products like loans from financial institutions has improved the financial knowledge of SMEs in Kikuubo Shopping Center. SMEs are able to keep records of income and expenditure which has improved the financial performance of SMEs. However, there is excessive reliance on manual records and some businesses are yet to appreciate the need for operating with formal budgets.

5.2.2 Financial Skills and Financial Performance of SME

There exists a strong significant positive relationship between financial skills and financial performance of SMEs. SMEs in Kikuubo Shopping Center possess various financial skills in the areas of managing credit, saving and investment. However, there is an apparent deficiency when it comes to participatory budgeting which may be explained by the nature of ownership of most SMEs which are mainly sole proprietorship businesses.

5.2.3 Financial Experience and Financial Performance of SMEs

There exists a strong significant positive relationship between financial experience and financial performance of SMEs. Financial experience improves SMEs ability to make judicious decisions concerning resource acquisition, allocation and utilization of financial products. However, the SMEs still face challenges in the area of risk management and an inherent risk exists where at times money borrowed by the business is not invested in the business.

5.3 Recommendations of the Study

There is a need for financial institutions to take their services nearer to the SMEs by advising them on the various financial products at their disposal and how they can access them. Through the joint collaboration of financial institutions and SMEs organizations, trainings in budgeting skills, risk management and the beauty of a shift from manual to computerized records should be emphasized in such trainings.

The relevant ministry of trade and industry should provide a policy framework that enables SMEs to regularly receive information on new financial products and education on good financial practice which can be achieved by the Ministry working closely with the associations that unite the various SMEs. The nation wide financial literacy programs being conducted by the government need to be strengthened.

A comparative study may be conducted involving the isolation of those with adequate financial literacy and those with limited financial literacy in business to establish if there exists a significant difference in financial performance between the two.

REFERENCES

[1]. Abiodun,E.A. & Harry, E. (2016). Financial literacy and SME firm performance. International Journal of Research Studies in Management. 5 (1), 31-43.

[2]. Alutu A.N.G. & Uzamere, A.O., (2011). The Girl-Child and Entrepreneurial Education: A Case for Economic Sustainability. *Current Research Journal of Social Sciences 3(3): 180-187, ISSN: 2041-3246*

[3]. Atkinson, A. and F.Messy. (2012), "Measuring Financial Literacy: Results of the OECD/International Network on Financial Education (INFE) Pilot Study", OECD Working Papers on Finance, Insurance and Private Pensions, No.15, OECD Publishing.

[4]. Ayyagari, M., & Demirguc-Kunt, S. (2005). An analysis of the relationship between TQM implementation and organizational performance: evidence from Turkish SMEs. Journal of Manufacturing Technology Management, 17 (6), 829-847.

[5]. Becker, G. (1975), Human Capital: A Theoretical and Empirical Analysis, Second edition, New York: Columbia University Press.

[6]. Bernheim, B. D., & Garrett, D. M. (2003). The effects of financial education in the workplace: evidence from a survey of households. *Journal of Public Economics*, 87(7), 1487-1519.

[7]. Bernheim, B. D., Garrett, D. M., & Maki, D. M. (2001). Education and saving: The long-term effects of high school financial curriculum mandates. *Journal of Public Economics, 80, 435-465.*

[8]. Bitature, P. (2010). Financial literacy should be priority to Ugandans, *Daily Monitor* Publishers, Kampala.

[9]. Bititci, U. S., Turner, A. S., & Begemann, L. (200). Integrated performance measurement systems: a development guide. *International journal of operations & production management,* 17(5), 522-534.

[10]. Braunstein, S. & Welch, C. (2002). Financial literacy: An overview of practice, research and policy. FederalmReserve Bulletin, 88, 445-457.

[11]. Bryant,J.H. (2013). Economic Growth Sustainability Rooted in Financial literacy. In Practicing Sustainability. Eds.:Madhavan,G.,Oakley,B.,Green,D.,Koon,D. and Low,P.New York: Springer.

[12]. Chetambe,H.N. & Sakwa,M. (2013). Effects of financial training on financial performance of schools in Kenya: a survey of administrators of secondary schools in Trans-Nzoia County. International Journal of Academic Research in Business and Social Sciences. 3(10),214-220

[13]. Christelis, T. W. (2010). Board Composition and Firm Performance: Some Canadian Evidence. Int Adv Econ Res, 16, 421–422. http://dx.doi.org/10.1007/s11294-010-9271-2.

[14]. Cocchetti, S.G & Kharoobi .E. (2012) Reassessing the Impact of Finance on growth.

[15]. Cooperative Extension Service. (2000). *The Columbia Encyclopedia*, (p.9383). The Columbia University Press. Retrieved June 28, 2016, from General OneFile via Gale: http://find.galegroup.com.proxybz.lib.montana.edu/ips/start.do?prodId=IPS

[16]. D'Amboise, G. Gasse, Y, (2006). Performance in small firms and utilization of formal management techniques, proceeding of the Joint National meeting TIMS/ORSA, Washington.

[17]. DeThomas, A. R. and Fredenberger, W. B. (2005). Accounting needs of very small business, CPA Journal

[18]. Dodaro, G.L. (2011). Financial Literacy: The Federal Government's role in Empowering Americans to Make Sound Financial Choices. Washington, D.C.: U.S. Government Accountability Office (GAO).

[19]. Drexler, A., Fischer, G., & Schoar, A. (2014). Keeping it simple: Financial literacy and rules of thumb. American Economic Journal: Applied Economics, 6(2), 1-31.

[20]. Esiebugie,U., Agwa,T.R. & Asenge,L.E. (2018). financial literacy and performance of small and medium enterprises in Benue state, Nigeria, 2 (4),65-79

[21]. Foss, N.J., (1997) Equilibrium vs. Evolution in the Resource Based Perspective. The Conflicting Legacies of Demsetz and Penrose. Paper Presented at the Danish Research Unit for Industrial Dynamics

[22]. Fox, J., Bartholomae, S., & Lee, J. (2005). Building the case for financial education. *Journal of consumer affairs*, *39*(1), 195-214.

[23]. Garcia-Teruel,P.J. & Salano,P.M. (2007). Effects of working capital management on SME profitability. *International Journal of Managerial Finance*, 3,164-177

[24]. Global Entrepreneurship Monitor (GEM) (2004). *Women and Entrepreneurship*. Center for Women's Leadership. Babson College. MA, USA.

[25]. Greenspan, A. (2002). Financial literacy: a tool for economic progress. *The Futurist*, *36*(4), 37.

[26]. Gustman, A.L., Steinmeier,T.L. and Tabatabai,N.(2010). Financial knowledge and financial literacy at the Household level. Michigan Retirement Research Center. University of Michigan.

[27]. Hastings, J.S., Madrian,B.C. and Skimmyyhorn,W.L.(2013). Financial Literacy, Financial Education, and Economic Outcomes. Annual Review of economics.5,347-373.

[28]. Hatega, G. (2007). SME development in Uganda. Private Sector Foundation Uganda, paper presented on 14th-March, 2007, Sheraton Kampala.

[29]. Hilgert, M. A., Hogarth, J. M., & Beverly, S. G. (2003). Household financial management: The connection between knowledge and behavior. *Federal Reserve Bulletin, 89*, 309-322.http://find.galegroup.com.proxybz.lib.montana.edu/ips/start.do?prodId=IPS

[30]. Hung,A.A., Parker,A.M. & Yoong,J. (2009). Defining and measuring financial literacy

[31]. Joo, S., & Grable, J. E. (2000). Improving employee productivity: The role of financial counseling and education. *Journal of Employment Counseling*, *37*, 2-15.

[32]. Kakuru, J. (2008), The supply- demand factors interface and credit flow to small and micro enterprises (SMEs) in Uganda, University of Stirling, Stirling, Scotland.

[33]. Kamunge M.S., Njeru A., & Tirimba O.I., (2014) Factors Affecting the Performance of Small and Micro Enterprises in Limuru Town Market of Kiambu County, Kenya. International Journal of Scientific and Research Publications, Volume 4, Issue 12

[34]. Karlan, D., & Valdivia, M. (2011). Teaching entrepreneurship: Impact of business training on microfinance clients and institutions. *Review of Economics and Statistics*, 93(2), 510-527.

[35]. Kato, J., (2016). Kikuubo: What the business hub means to Uganda's economy. Daily Monitor Tuesday, 23rd June , 2016.

[36]. Kidwell, B., & Turrisi, R. (2004). An examination of college student money management tendencies. Journal of economic

psychology : research in economic psychology and behavioral economics, 25(5), 601–616.
[37]. Kimunduu,G., Erick,O. & Shisia,A. (2016). A study on the influence of financial literacy on financial performance of small and medium enterprises in Ruiru town, Kiambu county, Kenya. International Journal of Economics, Commerce and Management, IV (11), 416-433
[38]. King, K., & McGrath, S., (2002). Globalization, Enterprise, and knowledge; Educational Training and Development, International Review of Education, 50(1), 74-76 (3).
[39]. Klapper,L.F.,Lusard,A. & Panos, G.A. (2013). Financial literacy and its consequences: evidence from Russia during the financial crisis. J. Bank. Finance 37 (10), 3904-3923.
[40]. Koitaba, E. K. (2013). Analysis of factors influencing financial control financial literacys in community based organizations in Baringo County, Kenya. MBA Thesis, Kabarak Public sector in Mirangine Sub County, Kenya
[41]. Kotze, L., & Smit, A. (2008). Personal financial literacy and personal debt management: the potential relationship with new venture creation. *South African Journal of Entrepreneurship and Small Business Management*, 1(1), 35-50.
[42]. Krechovska,M. (2015). Financial Literacy as a Path to Sustainability. Trendy v podnikani- Business Trends 2/2015,p5.
[43]. Lusardi, A., & Michell, O. S. (2006). Financial literacy and planning: Implications for retirement wellbeing. Wharton School, University of Pennsylvania: Pension Research Council Working Paper no. 1.
[44]. Lusardi, A., & Mitchell, O. (2007). Financial literacy and retirement preparedness: Evidence and implications for financial education, *Business Economics*, *42*, 35-44.
[45]. Mandell,L.(1997). Personal financial survey of high school seniors. Washington, D.C.: Jump Start Coalition for Personal Financial Literacy.
[46]. Miller, M., Godfrey, N., Levesque, B., & Stark, E. (2009). „The Case for Financial Literacy in Developing Countries: Promoting Access to Finance by Empowering Consumers". *World Bank, DFID, OECD e CGAP, http://www. oecd. org/dataoecd/35/32/43245359. pdf*.
[47]. Nangolis, S., Turinawe, D.D., Kituyi, G.M., Kusemererwa, C., & Jaaza, M., (2013). Towards Enhancing Business Survival and Growth Rates in LDCs: An Exploratory Study of the Drives of Business Failure among SMEs in Kampala Uganda. International Journal of Humanities and Social science. Vol. 3(8), 284 – 291.
[48]. Njoroge, R., (2012). Relationship Between Financial Literacy and Entrepreneurial Success in Nairobi, Kenya. Unpublished master's dissertation
[49]. Nunoo & Andoh. (2012).Sustaining Small and Medium Enterprises through Financial Service Utilization: Does Financial Literacy Matter?
[50]. OECD (2013). The role of Financial Education in Financial Inclusion. OECD/INFE.
[51]. OECD, (2011). Measuring Financial Literacy: Core Questionnaire in Measuring Financial Literacy. Questionnaire and Guidance Notes for Conducting an Internationally Comparable Survey of Financial Literacy. Paris: OECD.
[52]. OECD. (2005). *Improving financial literacy: Analysis of issues and policies.* Paris: OECD.
[53]. Organisation for Economic Co-operation and Development. OECD (2013). Financial literacy and inclusion: Results of OECD/INFE survey across countries and by gender. OECD Centre, Paris, France
[54]. Panos,G.A.,Gkrimmotsis,K., Bouzanis,C., Katmada,A., Satsiou,A., Gasparini,G.L., Prospero,A., Praggidis,I. & Karapistoli,E. (2016). What Do People Expect from a Financial Awareness Platform? Insights from an Online Survey. Springer International Publishing AG 2016, pp.9-56
[55]. Peterf, M.A., & Barney J.B., (2003). Unraveling the Resource – Based Tangle. Management and Decision economics, vol. 24(4), 309 – 323.
[56]. President's Advisory Council on Financial Literacy. (2008, January 22). *2008 Annual Report to the President.* Retrieved June 22, 2016. http://www.treasury.gov/offices/domestic- finance/financial-institution/fineducation/ docs/PACFL_ANNUAL_REPORT_1-16-09.pdf
[57]. Prudential Research Study (2014 -2015). Financial experience & behaviors among women. Prudential. Retrieved on 1/8/2018 www.prudential.com/women
[58]. Rahmandoust,M.,Shah,I.M.,Norouzi,M.,Hakimpoor,H. and Khani,N. (2011). Teaching Financial Literacy to Enterpreneurs for Sustainable Development. OIDA International Journal of Sustainable Development. 2 (12), 61-66.
[59]. Rwakakamba, M.,(2011). Budget Priorities and Job Creation in a Competitive Regional Market. Twaweza, *The African Executive*
[60]. Rwakakamba, M.,(2011). Budget Priorities and Job Creation in a Competitive Regional Market. Twaweza, The African Executive
[61]. Sami Uddin., Khizar M. & Ishtiaq, A. (2019). Do financial knowledge and financial experience affect the gender risk taking attitude? Research Gate. https://www.researchgate.net/publication/330243496. Retrieved on 5/9/2019
[62]. Smith, & Lynch. (2004). Is income inequality a determinant of population health. part 1 a systematic review. Accounting, Organizations and society
[63]. Smith, & Lynch. (2004). Is income inequality a determinant of population health. part 1 a systematic review. Accounting, Organizations and society
[64]. Thaler,R.H. (2013). Financial literacy, beyond the classroom. The New York Times
[65]. Turyahikayo, E., (2015). Challenges Faced By Small and Medium Enterprises in raising Finance in Uganda. International Journal of Public Administration and Management Research (IJPAMR), Vol. 3, No 2, December, 2015. Website: http://www.rcmss.com. ISSN: 2350-2231 (Online) ISSN: 2346-7215 3(2):21-33.
[66]. Uganda Investment Authority (2014). Uganda: Development of a National Micro, Small and Medium Enterprises (MSMEs) Policy and Strategy, July 2007.
[67]. United Nations Conference and Trade and Development UNCTAD. (2002). Proceedings of the Symposium on Modalities for Financing SMEs in Uganda. United Nations, Print, New York and Geneva.
[68]. Volpe, R. P., Chen, H., & Liu, S. (2006). An analysis of the importance of personal finance topics and the level of knowledge possessed by working adults. *Financial Services Review, 15*, 81-99.