

Understanding the Factors that Influence Financial Literacy in Small Businesses: Evidence from Bangladesh

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ABSTRACT

The goal of this study is to examine the factors that influence the general financial literacy, specific financial literacy, and total financial literacy of Micro and Small businesses entrepreneurs. The data for the study was gathered from 402 Responders across three districts in Bangladesh. By using the ordered logit model, the results reveal that the age of the entrepreneur has a positive and significant impact on the different types of financial literacy for the MSEs in Bangladesh. Furthermore, the study found that micro and small-service enterprises have a considerably higher level of financial literacy than their manufacturing counterparts. Additionally, the findings indicate that entrepreneurs with higher levels of education have significantly higher levels of financial literacy across all categories. The gross profit ratio of the enterprise is identified as the most influential factor affecting the financial literacy of entrepreneurs. The study shows that the higher the gross profit ratio of the firm, the significantly higher the level of financial literacy in all three categories for entrepreneurs. The study recommends that companies should allocate a portion of their profits toward educating their employees to improve their financial literacy. The government should also support MSEs by providing assistance to improve the financial literacy of the firms.

Keywords: Financial literacy, Entrepreneurs, MSEs, Gross profit.

JEL Classification: F63, L26

INTRODUCTION

Micro and small businesses

Many developed and developing nations throughout the world view Micro and small businesses as the foundation of their economies. About 55 percent of the GDP and 65% of job opportunities in higher-income nations are accounted for by this industry. While MSEs account for 60% of GDP and almost 70% of total employment in low-income economies, they contribute approximately 70% of GDP and 95% of the total employment in middle-income countries. (Kongolo, 2010). Therefore, the MSEs serve as a driver for

economic growth while also supplying vulnerable populations with employment opportunities, including women, young entrepreneurs, and underprivileged communities.

This industry has a number of challenges, including inadequate capital, insufficient banking financing, and a lack of financial literacy to use a variety of financial goods and services.

(Adomako, Danso, & Damoah, 2016). Small and mid-sized companies play a crucial role in the economic progress of many nations. As a result, numerous stakeholders, including governments, policymakers, and financial institutions, are concerned about the performance and expansion of these enterprises. SMEs face numerous challenges such as burdensome regulations, complex tax systems, and limited access to financing, lack of technological resources, and insufficient guidance and support. Additionally, they often struggle to obtain necessary assistance from government agencies, banks, financial institutions, and larger corporations. These obstacles hinder the growth and productivity of SMEs, limiting their potential contributions to the economy (Atkinson, 2017). One of the prominent research projects that was done by (Lownes-Jackson, Olorunniwo, Flott, & Ellzy, 2003) has highlighted eleven financial challenges faced by entrepreneurs, including difficulties in securing external funding, inadequate capital, expensive operational costs, ineffective money management, substantial losses due to fraud, high expenses for skilled labor, inability to obtain both short-term and long-term loans, lower incomes, failure to meet financial obligations, insurance costs, and expensive workers' compensation. Moreover, entrepreneurs in micro and small enterprises lack sufficient awareness of government-run financial programs and initiatives that could provide them with improved financial Approach (Chawla, 2018). The existing Writing suggests that a significant number of developing countries struggle with a lack of financial management expertise, which greatly affects the performance, viability, and expansion of micro and small enterprises (Adomako, Danso, & Damoah, 2016). Moreover, research indicates that insufficient knowledge about finance is a primary factor hindering Micro and Small Enterprises (MSEs) from obtaining necessary financial resources from financial institutions and investors, ultimately resulting in enterprise failure. (Karadag, 2015).

Financial literacy

The performance of the MSE (Micro, Small, and Medium Enterprise) sector is closely tied to the extent of financial knowledge possessed by its entrepreneurs. Financial literacy refers to the ability of managers to comprehend and evaluate financial information in order to make informed financial choices. (D.N. Marriott, 1996). Similarly, (Mandell, 2007) Financial literacy can be described as the capacity to assess intricate financial tools and make well-informed decisions regarding the selection and appropriate utilization of these instruments, ensuring one's long-term benefit. As per (A. Lusardi, 2014), Financial literacy is defined as having a fundamental understanding of key financial concepts and the capacity to perform basic calculations. Its importance has grown due to the introduction of new financial products and services, the intricate nature of financial markets, and the ever-changing economic landscape. Nevertheless, existing research indicates that there is no universally accepted and precisely defined standard for financial literacy (P. Gerrans, 2016) (J.B. Mabula, 2018). Hence, assessing financial literacy has been regarded as a significant difficulty (Remund, 2010). The World Bank defines financial literacy as the amalgamation of customers' or stockholders' comprehension of monetary instruments, along with their capacity and sureness to recognize financial dangers and possibilities. It encompasses the ability to make informed decisions, know where to seek assistance, and take appropriate actions to enhance one's financial well-being (P.N. Kalekye, 2013). In summary, an entrepreneur's financial literacy can be described as a combination of their understanding of financial concepts, ability to manage risks effectively, and skill in making optimal financial investments. (Fig. 1).

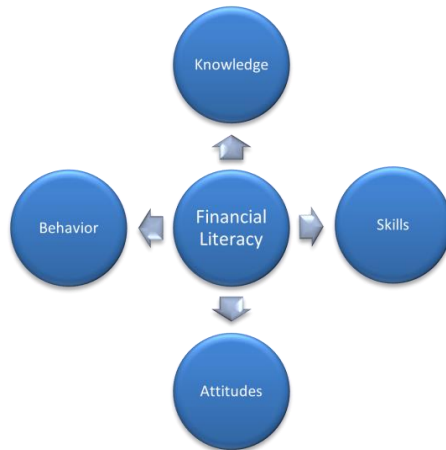


Fig. 1. Key components of financial literacy.

Source: Prepared by Authors

These explanations demonstrate the importance of having a good understanding of financial concepts and skills, as it plays a vital role in making well-informed financial choices for both individuals and small business owners. (K. Goswami, 2017) The recommendation is to emphasize vocational education and training as a means to enhance the performance of micro-entrepreneurs. A key aspect that is often emphasized for the success of micro and small enterprises (MSEs) is effective financial management, especially in developing countries (Derbyshire, 2016) The challenges related to financial management experienced by MSEs globally are closely linked to the skills and capabilities of the entrepreneurs who run these enterprises (N. Ripain, 2017). Insufficient knowledge in financial matters hampers an individual's capacity to achieve their long-term goals, such as effectively managing their day-to-day finances, planning for retirement, and obtaining suitable financing options (Ergun, 2017).

In technical terminology, the abilities possessed by managers to handle financial matters are known as financial literacy. Financial literacy plays a crucial role in making informed choices and enhancing an individual's financial welfare. In the present era of fierce competition, where the market offers intricate products and services, having financial literacy is absolutely essential (M. Sekar, 2015) (D. Cucinelli, 2019) and Financial literacy plays a crucial role in promoting economic progress and improvement within economies. It enables entrepreneurs to effectively evaluate their need for additional funding and determine the appropriate time to secure collateral or other forms of financial support (Chawla, 2018) (R. Kuntze, 2019) Financial literacy encompasses a wide range of elements, including cognitive skills, personal characteristics, behavior, and critical thinking skills that develop and grow over time. It involves having an awareness and understanding of financial concepts, as well as various financial products and services, which enables individuals to make wise and informed financial decisions. (H. Ali, 2018) The Association of Chartered Certified Accountants emphasizes the importance of financial literacy for businesspersons of micro and small enterprises (MSEs). They highlight that in order to succeed and thrive in a competitive environment, entrepreneurs must have a solid understanding of basic financial concepts such as accounting, costing, and budgeting. These activities hold significant financial implications, and being financially literate is essential for entrepreneurs to operate effectively:

- Distinguishing between personal and company funds.
- Acquiring knowledge about various financial products and services.
- Effectively forecasting the company's capital needs from different funding options.
- Minimizing risks.
- Establishing the company's credibility and readiness for investment.
- Efficiently managing tax obligations.

- Practicing sound financial controlling.

Consequently, it is crucial for businesspersons in the Micro and Small Enterprise (MSE) sector to possess sufficient financial knowledge and skills in order to effectively manage their businesses. Additionally, having financial literacy has a positive impact on the overall performance of these firms. As a result, the objective of this study is twofold:

1. To investigate the extent of financial literacy among businesspersons operating MSEs in the districts of Bangladesh.
2. To analyze the effect of key features (such as age, gender, education, tenure of the enterprise, geographical location, form of firms, and profits) on financial literacy.

The subsequent unit outlines the previous research conducted by different writers to assess the degree of financial knowledge among small business entrepreneurs across various countries. It also emphasizes the significance of financial literacy in minimizing functioning damages and enhancing presentation as well as well-organized fund control.

REVIEW OF LITERATURE

Entrepreneurs play a crucial role in securing adequate funding and generating sufficient revenue for their businesses. Therefore, it is vital for businesspersons to possess and comprehend essential financial literacy, such as accounting, costing, and budgeting. This knowledge is essential for the growth and endurance of their enterprises in today's rivalrous environment (H. Ali, 2018). The studies assumed by (Isern, et al., 2009); (Oseifuah, Financial literacy and youth entrepreneurship in South Africa, 2010); (Fatoki, 2014); (Plakalovi, Financial literacy of SMEs managers, 2015); (P. Engstrom, Financial literacy, role models, and micro-enterprise performance in the informal economy, 2017); (H. Ali, 2018)

Disclosed that entrepreneurs of the small businesses controlled low level of financial literacy. Nevertheless, the study performed by (J. Ponio, 2017); (P. Dahmen, Financial literacy and the success of small businesses: An observation from a small business development centre, 2014) According to research, it was discovered that the small business owners demonstrated a moderate degree of understanding in financial matters. Existing studies indicate that approximately 85 percent of African MSEs experienced failure due to inadequate management choices and a low level of financial knowledge. (Fadahunsi, 1997). Approximately 59 percent of small and mid-sized enterprise (SME) entrepreneurs in Nigeria encountered difficulties in accessing financial services. (Isern, et al., 2009). Insufficient knowledge in financial literacy leads to reduced effectiveness, ultimately leading to the untimely collapse of the business (Adegoke, 2014). Further, (H. Ali, 2018) It has been emphasized that entrepreneurs who possess a strong understanding of financial matters tend to earn higher incomes, save more money, exhibit effective planning skills, and are less likely to be burdened by excessive debt. Having financial literacy equips entrepreneurs with the necessary tools to thrive in a highly competitive business environment. (Fatoki, 2014) A study conducted on 34 small-scale businesses revealed that the majority of the business owners demonstrated a clear comprehension of fundamental business and financial terms. These included concepts such as saving (100 percent), Borrowing (100 percent), capital (94.12 percent), Security (100 percent), Duties (100 percent), Assurance (100 percent), Interest rate (100 percent), Credit card (100 percent), installment plan (100 percent), and Stock market (91.17 percent). Nevertheless, when it came to more complex financial services such as asset-based lending and debtor finance, the entrepreneurs faced difficulty in understanding them.

(P. Engstrom, Financial literacy, role models, and micro-enterprise performance in the informal economy, 2017) A study conducted in Ecuador revealed that a mere 2.6 percent of entrepreneurs were able to provide accurate responses to all three questions regarding interest, price increases, and risk. Surprisingly, the proportion of participants who were unable to respond any of the questions properly was only 5.5.

(Guliman, 2015)

The financial information as well as abilities of entrepreneurs running Micro and Small Enterprises (MSEs) in Iligan City were assessed, revealing that a majority of the respondents had a low level of financial literacy. However, they exhibited a moderate level of financial skills specifically related to planning and budgeting. According to a study conducted by (J. Ponio, 2017) it was found that over half (60 percent) of micro commercial Owners have a general understanding of financial principles such as variety, interest, risk, and return. The study revealed that 40 percent of the participants achieved a regular score in financial information, while 37 percent scored low and 23 percent scored high in this particular feature of finance. According to a study conducted by (Barte, 2012) fish vendors in Cebu City, Philippines lacked financial skills. A considerable portion of the vendors, approximately 71 percent, did not maintain any records of their transactions, while 75 percent did not track their profits and losses. Furthermore, 82 percent of the vendors demonstrated inadequate cash management methods, as they did not separate the funds used for personal and business objectives. In a study conducted by (Oseifuah, Financial literacy and Youth Entrepreneurship in South Africa, 2010) it was found that a mere 31 percent of entrepreneurs in South Africa had the necessary skills to effectively handle their own finances. The study also exposed that 85.3 percent of the participants maintained financial documents, while approximately two-thirds (66.7 percent) of them created budgets and monitored their expenses. According to a survey conducted in Florida (P. Dahmen, Financial literacy and the success of small businesses: An observation from a small business development centre, 2014) half of the business owners in the study did not regularly review their company's financial assertions. Surprisingly, 86 percent of these businesses encountered financial problems. The primary causes of these difficulties were identified as income losses, inadequate monetary flow, and overwhelming debt. Furthermore, the survey revealed that only one out of fourteen business holders had a grasp of how to calculate their company's gross profit. (Plakalovi, Financial literacy of SMEs managers, 2015) The financial literacy of Small and Medium Companies owners and managers in the Republic of Srpska was examined. The research revealed that a mere 20 percent of the participants demonstrated a satisfactory level of financial literacy. (O. Egbo, 2020) A group of 20 women entrepreneurs in Nigeria was examined. The findings revealed that 31 percent of the participants had knowledge of finance. Additionally, 22 percent of the participants linked financial literacy skills to maximizing profits, while 36 percent regarded financial literacy as crucial for corporate expansion. Furthermore, approximately 10 percent acknowledged the importance of financial literacy for making informed decisions.

(M.D. Lestari, Analysis of the financial literacy level of micro, small and medium enterprises (MSMEs) in Jember, East Java, Indonesia, 2020) A study conducted in East Java, Indonesia, assessed the financial literacy of 40 entrepreneurs. The findings indicated that the respondents displayed good awareness regarding savings (88 percent), banking (74 percent), and the time value of money (68 percent). Nevertheless, their information regarding cover (18 percent), capital gain (35 percent), and risk and return (41 percent) was relatively limited. Additionally, the study identified that the respondents' level of financial literacy was significantly influenced by their gender and age. (M.D. Lestari, Analysis of the financial literacy level of micro, small and medium enterprises (MSMEs) in Jember, East Java, Indonesia, 2020) An extensive interview was carried out with 18 restaurant owners in Thailand, revealing that 49.4% of them exhibited a limited understanding of financial concepts across six key areas (finance, accounting, cash controlling, cost estimates, corporate planning, and viability research). Additionally, it was found that 22.7% of the entrepreneurs had no financial knowledge whatsoever. According to a study conducted by (M. Mashizha, 2019) it was found that the level of financial knowledge among micro and small enterprise entrepreneurs was comparatively inadequate. (H.A. Hassan Al-Tamimi, 2009) It was noted that the financial literacy of investors in the UAE was influenced by factors such as income level, education, and workplace activity. Interestingly, financial illiteracy was found to be prevalent across all age groups. The study utilized factor analysis to identify the most significant factors influencing investment decisions, which were identified as religious details, the standing of the firm, and variation. On the other hand, factors such as rumors and the ease of obtaining borrowed funds were found to have the least impact on investment

decisions.

Existing literature reveals that numerous several studies on financial literacy have been undertaken worldwide. However, there is a considerable difference in the sizes and limits accustomed amount financial literacy among entrepreneurs in various countries, as highlighted by different authors. Despite the potential importance of this topic, little to no research has been conducted to measure the influence of various elements on financial literacy in Bangladesh, particularly regarding the sustainability of Micro and Small businesses. Furthermore, there have been limited studies investigating the factors of general financial literacy among entrepreneurs in Bangladesh using a Multivariable outline. Therefore, Bangladesh has been chosen as the focus of the current paper.

This study aims to aid to existing knowledge by scrutinizing and approximating the factors of financial literacy in Bangladesh using a Multivariable Ordered Logit model, which has not been done before. It is vital to note that past studies have explored the impact of financial acumen on profit and profit development; however, they did not employ Multivariable regression Evaluation.

METHODOLOGY

Research instrument

A comprehensive survey has been developed to evaluate entrepreneurs' proficiency in business management. The survey comprises six broad questions that address various subjects, including non-compound Interest, Compound Interest, Price increases, Hazard, Portfolio diversification and Time Value of Money. These questions were formulated by referring to earlier research conducted by (L.F. Klapper, 2012) (Jariwala, 2014). Furthermore, the questionnaire includes a total of fourteen distinct inquiries covering various subjects related to finance. These areas encompass Monetary Value, Financial Planning, Statement of Financial Position, Income Statement, Liquid Assets, Long-term Assets, Term Deposits, Corporate Bonds, Common Shares, Business Tax, sales Tax, Consumption Tax, and Indirect Tax are all terms used to describe financial worth. The formulation of these questions was influenced by previous research conducted by (Robinson, 2015) (S.C. Tulsian, 2016) which aimed to assess individuals' Financial Literacy levels.

The questionnaire assigns one mark to each question, and a respondent receives one mark for each correct answer. Incorrect answers and "do not know" responses do not receive any marks. The Financial Literacy Mark is determined by summing up all the correct answers given by the respondent.

The structured questionnaire was given to 402 respondents in person. Out of these, 336 questionnaires were filled out and reverted, arising in a participation rate of 83.5 percent.

Statistical procedures

In this study, an equation was employed to examine the influence of a number of factors on the level of financial literacy among businesspersons. Since the dependent variable possesses sequential, an Ordered Logit model was chosen as a more suitable approach compared to a linear model:

Financial literacy =

$$\alpha + \beta_1 \text{age}_i + \beta_2 \text{Gender}_i + \beta_3 \text{Education}_i + \beta_4 \text{Age_Enterprise}_i + \beta_5 \text{District1}_i + \beta_6 \text{District2}_i + \beta_7 \text{Dms}_i + \beta_8 \text{Dsm}_i + \beta_9 \text{Dss}_i + \beta_{10} \text{GrossProfitRatio}_i + e_i \dots \dots \dots 1$$

Equation (1) includes various variables described in detail in Table 1, including various stages of financial literacy for firm 'i' and a random variable e_i . Additionally, Table 1 shows gist statistics for these Conditions.

Table 1:

Summary statistics

Variable	Description of the variable	Average	SD
GFL	Six broad questions on General financial literacy were used to develop this section.	4.159	1.359
SFL	14 particular financial literacy questions were used to build a specific financial literacy.	7.559	2.607
OFL	Overall Financial Literacy = General_FL + Specific_FL	11.702	3.439
Age	Age of the Entrepreneur	35.514	9.134
Gender	Sex of the Entrepreneur	0.987	0.113
Education	Education of the Entrepreneur	3.104	1.467
Age_Enterprise	Age of the Enterprise	2.107	0.746
Dis ₁	If the firm is from district ₁	0.605	0.490
Dis ₂	If the firm is from district ₂	0.236	0.425
Dis ₃	If the firm is from district ₃	0.159	0.366
Dmm	If the firm is Micro- Manufacturing	0.583	0.494
Dms	If the firm is Micro-Service	0.197	0.399
Dsm	If the firm is Small-Manufacturing	0.162	0.369
Dss	If the firm is Small-Service	0.058	0.235
GPR	Gross Profit Ratio	1.793	0.787

Source: Primary data

Table 2:

Determinants of Financial literacy

Variables	General	Specific	Overall	General	Specific	Overall
	FL	FL	FL	FL	FL	FL
Age	0.0248** (2.08)	0.0222* (1.86)	0.0231* (1.93)	0.0112* (1.75)	0.0159 (1.30)	0.0149 (1.21)
Gender	0.8732 (0.99)	-0.2184 (-0.28)	0.1591 (0.19)	0.9705 (1.11)	-0.3627 (-0.41)	0.0708 (0.07)
Education	0.4175*** (5.55)	0.5046*** (6.83)	0.5598*** (7.39)	0.3169*** (4.05)	0.4301*** (5.76)	0.4950*** (6.41)
Age_enterprise	0.0249 (0.17)	0.3982*** (2.76)	0.3006** (2.07)	0.2050 (1.37)	-0.2249 (-1.53)	-0.1005 (-0.67)

District ₁	-0.1873 (-0.57)	-0.3228 (-1.05)	-0.2560 (-0.82)	-0.0171 (-0.05)	-0.0992 (-0.32)	0.0523 (0.17)
District ₂	0.1749 (0.47)	-0.0832 (-0.24)	-0.0081 (-0.02)	0.2810 (0.76)	0.1554 (0.46)	0.2775 (0.80)
Dms	1.7434*** (6.05)	1.5099*** (5.46)	1.7297*** (6.46)	1.5040*** (5.04)	1.1457*** (4.09)	1.4224*** (5.05)
Dsm	0.6672** (2.16)	0.4138 (1.41)	0.4487 (1.48)	0.8763*** (2.80)	0.4553 (1.53)	0.6465** (2.07)
Dss	1.6825*** (3.68)	1.9800*** (4.17)	2.2211*** (4.78)	0.9022* (1.90)	1.2577** (2.47)	1.5074*** (3.12)
Dmm	0.512 (0.95)	0.387* (0.78)	0.789** (1.12)	0.635 (0.88)	0.492* (0.72)	0.721 (0.98)
Gross profit ratio				1.0534*** (6.52)	1.0756*** (6.85)	1.2592*** (8.14)
Observations	336	336	336	336	336	336
Pseudo R-squared	0.097	0.074	0.085	0.143	0.109	0.133
LR Chi-squared	94.429***	105.199***	128.070***	139.465***	154.735***	199.366***

Source: ***, ** and * shown the level of significance at 1%; 5% and 10% level, respectively.

RESULTS AND DISCUSSION

Descriptive analysis

Derived from the data presented in Table 1, respondents exhibited stronger proficiency in general financial knowledge rather than in specific financial topics. The average score for total financial literacy was recorded as 11.7. Inadequate financial literacy can lead to unfavorable financial choices, limited savings, insufficient risk management, and a lower net worth, as reported by (M. Munoz-Murillo, 2019) and (R. Xue, 2019). The respondents had an average age of 36, indicating the age range of the participants. The data also revealed a significant gender disparity among the respondents. Out of the total respondents, 332 were male, while only a small proportion of 4 or 1.2% were female. This suggests that the district’s micro and small firms are predominantly male-dominated, likely because of socio-economic and cultural factors that create barriers for women’s involvement. To address this issue and increase female’s participation in the workforce, it is recommended to promote the development of women’s entrepreneur networks.

Regarding education, the majority of participants held a diploma as their highest level of education. This indicates the educational background of the respondents. Additionally, the data showed that the largest number of businesses were in the growth stage, suggesting that many MSEs were in a phase of expansion and development.

Table 1 provides further information, revealing that there were more manufacturing-based micro and small enterprises compared to service-based ones. This indicates the distribution of enterprises across different sectors. Moreover, when examining the gross profit ratio, it was found that the lucrativeness of the enterprises ranged from low to medium.

Determinants of financial literacy

The coefficients of the determinants were estimated separately for general, specific, and total financial literacy applying the Ordered Logit model (equation 1). The outcomes of the estimation, shown in Table 2, provide the estimated coefficients for various specifications. The coefficient for age was found to be positive and statistically significant, indicating that as respondents' age increases, their level of financial literacy is likely to be higher. This suggests that as entrepreneurs grow older and gain more experience, they tend to improve their financial literacy by managing day-to-day financial difficulties. (A. Lusardi, 2014). Whereas, the outcomes of the former studies (C. Murendo, 2017); (M. Mashizha, 2019) which indicated that older respondents had lower levels of financial literacy and struggled to enhance their financial capabilities, our research consistently demonstrates that higher education levels among entrepreneurs in Micro and Small Enterprises (MSEs) are likely to result in higher levels of financial literacy. The positive and significant estimated coefficient of education across all specifications further supports this observation. Therefore, it can be inferred that MSE entrepreneurs with a higher level of education will experience significant improvements in various aspects of financial literacy. These findings align with existing literature, as highlighted by (A. Lusardi, 2014); (Worthington, 2005) emphasizing the influence of education on financial literacy levels. (K. Goswami, 2017) Education plays a crucial role in supporting entrepreneurs by enabling them to effectively manage risks, enhancing their value-added output, and improving their financial inclusion. This eventually brings about increased lucrativeness and performances as a protection against venture failure. However, the impact of gender on the financial literacy of entrepreneurs appears to be insignificant in this study, possibly due to the very small representation of female entrepreneurs compared to males. (A. Lusardi, 2014); (A. Potrich, 2016) discovered that females often face challenges in making financial calculations and tend to have insufficient financial knowledge. These findings contradict the results of other studies (A. Cupak, 2018); (Ergun, 2017); (A. Hasler, 2017); (M.D. Lestari, Analysis of the financial literacy level of micro, small and medium enterprises (MSMEs) in jember, East Java, Indonesia, 2020); (J.B. Mabula, 2018); (L. Rasoaisi, 2015); (T. West, 2014) which are inconsistent with the results of the present study. The financial literacy of women is influenced by their position and work location. Women who hold the position of head of a rural household tend to exhibit a lower level of financial literacy. On the other hand, women who own non-farm enterprises Lean toward have a higher level of financial literacy. (S. Cole, 2009). The statistical analysis revealed that the estimated coefficients of District1 and District2 were found to be not statistically significant across all the different specifications. This suggests that there is no significant variance in the level of financial literacy among entrepreneurs based on the geographical areas where they operate. (S. Cole, 2009) It was emphasized that regional disparities have an influence on the level of financial literacy. Specifically, individuals residing in rural areas of Bangladesh and Indonesia exhibited lower financial literacy in comparison to those in advanced nations. It is important to note that the current study only focused on districts within urban areas, and as a result, no significant difference in financial literacy was discovered. Nevertheless, it is worth considering that distinct teaching approaches may be necessary to improve the financial literacy of entrepreneurs residing in city and countryside areas. In a similar vein, research revealed that service sector companies demonstrated an advanced financial literacy across all categories in comparison to their industrial counterparts. This was evidenced by the fact that businesspersons in service-based businesses displayed higher financial literacy scores than those in manufacturing firms. This discrepancy can be attributed to the truth that entrepreneurs in the service area, particularly those included in IT, automobile restore, and other service-oriented industries, are often required to obtain certain qualifications before establishing their enterprises. Additionally, entrepreneurs

operating in the service sector engage in daily transactions, which naturally motivate them to enhance their financial knowledge. These findings align with a previous study conducted by (M. Mashizha, 2019).

The positive and significant estimated coefficient for the Gross Profit Ratio suggests that a higher Gross Profit Ratio is likely to have an important influence on the financial literacy of micro and small firms in Bangladesh across all three forms of financial literacy measures. This means that as the lucrativeness of the enterprise rises, it provides the firm with more financial resources. Consequently, an organizations with a higher Gross Profit Ratio would have more funds available to invest in employee education, thereby increasing the smooth of financial knowledge within the organization.

The rationale following this relationship is that when a firm's lucrativeness improves, it gains access to additional funds that can be allocated towards initiatives such as employee training and development. As a result, entrepreneurs and employees can acquire knowledge and skills related to various financial aspects, including interest rate analysis, risk management, price increases, and statement of financial position items, income statement, and management of non-current and short term assets. This increased exposure and appointment with financial concepts and practices contribute to enhancing the overall financial literacy level of the firm.

It's also important to note that, up until now, no earlier studies have attempted examine the influence of profit ratios on financial knowledge within a multivariate system. Therefore, this research delivers valuable insights into the link between Gross Profit Ratio and financial literacy, taking into account other relevant variables.

CONCLUSION

The foremost goal of this study is to classify the features that provide to various forms of financial literacy, including general, specific, and total financial literacy. To achieve this, an organized survey was distributed to 402 businesspersons in Bangladesh. Out of these, 336 completed questionnaires were received, resulting in an answer rate of 83.5 percent. The findings of the study demonstration that the micro and small organizations sector is mostly male-dominated. This highlights the importance of encouraging more females to venture into entrepreneurship. Therefore, it is recommended that the government implement specific schemes and provide incentives to promote female entrepreneurship. Financial literacy is a critical aspect of entrepreneurship, as it allows entrepreneurs to make sound financial decisions and manage their businesses effectively. In Bangladesh, like many other developing countries, there is a need to encourage more females to become entrepreneurs and to promote financial literacy among entrepreneurs. This can be attained through various initiatives, such as the introduction of special schemes and incentives for female, the establishment of female's Self-Help Groups, and the provision of vocational courses to develop entrepreneurship among females.

A recent study has identified education and age as the primary factors influencing financial literacy. To address this issue among entrepreneurs, policymakers should prioritize improving the level of education. This can be accomplished by introducing basic finance-related courses in the curricula of schools, colleges, and institutions. These courses should cover various aspects of financial literacy, including banking, pricing, financial planning, risk assessment, taxation, and legal matters. By implementing such measures, policymakers can instill confidence in young individuals regarding financial matters and equip them with the essential expertise for effective financial organization.

Another crucial determinant of financial literacy, specifically among entrepreneurs, is the gross profit ratio. A higher gross profit ratio is associated with a higher level of financial literacy. To enhance financial literacy, the government should implement measures aimed at improving the gross profit ratio of businesses. This can be achieved by reducing supply chain costs, facilitating access to finance, and alleviating the tax

burden. Such initiatives will provide additional funds to micro, small, and medium-sized businesses (MSEs), empowering them to invest in activities that enhance their financial literacy.

To cater to the specific needs of entrepreneurs, it is critical to establish and implement different financial training programs, comprising both theoretical and practical components, for different types of entrepreneurs. Entrepreneurs in the manufacturing sector, who are involved in high-risk activities, require particular support to effectively manage their businesses. Therefore, frequent training sessions should be organized for them, covering topics such as financial statements, tax liability calculations, tax planning, and awareness of the legal structure governing business creation and management. By providing targeted training, policymakers can improve the financial education of innovators and contribute to their overall success. Top of Form

Financial literacy is a critical aspect of entrepreneurship, and policymakers must take measures to enhance the Entrepreneurs' knowledge of finances. This can be achieved by encouraging more women to become entrepreneurs, improving the level of education, and introducing separate financial training modules for different types of entrepreneurs. Additionally, efforts must be made to improve the gross profit ratio of businesses, as this is a significant factor of financial literacy. By taking these steps, policymakers can help entrepreneurs to make sound financial determinations and control their businesses effectively, which will ultimately lead to economic growth and development.

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