

Financial Literacy: A Driver of Business Sustainability Among Small Contractors

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ABSTRACT

The construction industry is a primary contributor to national GDP, yet small contractors suffer from disproportionately high failure rates within their first five years due to financial mismanagement. This problem is rooted in a critical deficit of financial-managerial capacity, where owner-managers often prioritize technical execution over the strategic cash flow management and debt control required for long-term viability. There is an urgent need for this study to bridge the gap between general SME financial literacy and the unique "project-based" financial risks inherent in the construction sector, particularly regarding the integration of modern digital and ESG (Environmental, Social, and Governance) requirements. The aim of this study is to examine financial literacy as a strategic driver of business sustainability among small contractors, utilizing the Resource-Based View (RBV) and the Theory of Planned Behavior (TPB) to map the transition from technical knowledge to sustainable performance. The methodology employs a conceptual framework that categorizes financial literacy into dimensions such as debt management, digital literacy, and investment awareness, proposing them as independent variables that influence business survival. The significance of this framework lies in its ability to serve as a "resilience filter," demonstrating that higher financial literacy leads to improved bidding strategies, reduced bad debt, and the adoption of sustainable technologies like Building Information Modelling. The study concludes that financial literacy is the foundational "strategic armor" required for small contractors to achieve solvency and operational longevity. It is recommended that policymakers and professional bodies implement sector-specific financial training to foster resilient enterprises capable of supporting stable employment and national infrastructure development.

Keywords: Financial Literacy, Business Sustainability, Small Contractors, Construction Industry, Strategic Management, Entrepreneurial Resilience.

INTRODUCTION

The sustainability of small and medium enterprises (SMEs) has become a focal point for global economic stability and green recovery initiatives (Luo & Cheng, 2023). Within the construction sector, small contractors face unique challenges that necessitate robust financial management to ensure long-term viability (Farahvashi, 2025). Financial literacy is increasingly recognized as a primary driver of sustainable performance and societal welfare among these small business entities (Maravilla Jr & Flores, 2025). It encompasses the acquisition of strategies that owners use to navigate complex economic environments (Obiora, 2023). Without adequate financial knowledge, small contractors often struggle with decision-making processes essential for sustainability practices (Havuginoti, 2024).

The nexus between entrepreneurial financial literacy and business sustainability is particularly evident in developing economies like Ethiopia and South Africa (Meressa, 2023; Msomi & Olarewaju, 2021). For micro-businesses, such as those operating in Namibia, financial literacy directly influences their ability to achieve financial sustainability (Fillipus, 2023). Research indicates that financial knowledge not only improves financial performance but also fosters innovation within SMEs (Liu et al., 2021; Yakob et al., 2021). Furthermore, high levels of financial literacy contribute to the practice of sustainable business models among small business owners

(Babajide et al., 2023). In specialized sectors like the Nigerian construction industry, financial literacy supports the adoption of sustainable technologies such as Building Information Modelling (Saka et al., 2020).

Despite its importance, gaps in financial knowledge persist, particularly among marginalized groups such as women-owned microenterprises (Gichuru, 2025). The significance of financial literacy extends to specific markets, such as the halal business sector, where it remains a critical factor for success (Yasin et al., 2020). Beyond individual business metrics, financial literacy influences broader concepts such as trust in financial institutions and overall financial well-being (Rahman et al., 2021; Van der Crujisen et al., 2021). It even plays a role in modern financing avenues, such as security-based crowdfunding (Meoli et al., 2022). Comprehensive literature reviews suggest that establishing a framework for financial literacy is essential for the future growth and sustainability of SMEs (Graña-Alvarez et al., 2024). Ultimately, financial literacy serves as a foundational pillar for the growth and resilience of small contractors in a competitive global market (Susan, 2020).

Despite the construction industry's vital role in national GDP, small contractors face an alarmingly high rate of business failure, with many failing within their first five years of operation (Bushe, 2019; Msomi & Olarewaju, 2021). The primary cause of these failures is often attributed to financial instability, characterized by poor cash flow management, an inability to access formal credit, and high levels of bad debt (Farahvashi, 2025; Omopariola et al., 2020). In a volatile economic climate marked by currency depreciation and high interest rates—especially in emerging markets like Nigeria—small contractors are frequently unable to navigate complex capital requirements and fluctuating material costs (Agusto Store, 2025; NESG, 2025).

While technical expertise is abundant, there is a critical deficit in the "financial-managerial" capacity of owner-managers (Graña-Alvarez et al., 2024). Many contractors prioritize short-term survival over long-term sustainability, viewing sustainable financial management as a luxury rather than a necessity (RSIS International, 2025). This lack of financial literacy leads to suboptimal decision-making, such as miscalculating project bids and failing to maintain liquid cash buffers, which ultimately erodes business resilience (Babajide et al., 2023; Maravilla Jr & Flores, 2025). Consequently, without a significant shift toward financial literacy as a driver of sustainability, small contractors will continue to remain vulnerable to insolvency and economic shocks.

Current literature extensively discusses financial literacy in the context of general Small and Medium Enterprises (SMEs), but several critical gaps remain. Most studies focus on the retail or manufacturing sectors, overlooking the unique project-based financial structure of the construction industry, where upfront capital and delayed milestone payments create distinct sustainability risks (Omopariola et al., 2019). Furthermore, existing research often treats financial performance and business sustainability as interchangeable concepts, leaving a lack of empirical evidence specifically linking financial literacy to the long-term survival of small contractors in the face of modern environmental, social, and governance requirements (Akomea-Frimpong et al., 2022). Methodologically, much of the existing research relies on traditional bibliometric or descriptive analysis, highlighting a need for more in-depth, context-specific studies that examine the mechanisms such as risk attitude and digital financial access through which literacy translates into long-term business survival (Molina-García et al., 2022; Ye & Kulathunga, 2019).

This study introduces novelty by reframing the contractor's role, shifting the focus from simple bookkeeping to entrepreneurial financial literacy as a strategic driver for sustainable business models specifically within the construction sector (Meressa, 2023). Unlike general SME studies, this research specifically analyzes the nexus between financial literacy and small contractor sustainability, accounting for industry-specific variables like bidding risks and project cost controls (Farahvashi, 2025). Additionally, the study incorporates emerging elements such as digital financial literacy and ESG integration, exploring how small contractors can leverage financial knowledge to adopt sustainable technologies like Building Information Modelling for long-term viability (Saka et al., 2020; Trotta et al., 2024).

LITERATURE REVIEW

Conceptualizing Financial Literacy and Sustainability

Financial literacy serves as a foundational pillar for the survival of small-scale enterprises, encompassing the ability of owners to understand and apply financial management skills effectively (Susan, 2020). Beyond simple

bookkeeping, it represents a core entrepreneurial competency that drives sustainable performance and enhances societal welfare (Maravilla Jr & Flores, 2025). Within the small business sector, financial literacy is increasingly linked to the adoption of sustainable business models, especially during periods of green economic recovery (Luo & Cheng, 2023). For small contractors, this literacy is not merely a technical skill but a strategic asset that dictates the long-term viability of their operations (Farahvashi, 2025). The ability to navigate complex financial landscapes ensures that these entities can maintain their financial health even amidst market volatility (Msomi & Olarewaju, 2021).

Financial Literacy as a Driver of Decision-Making

The impact of financial literacy on decision-making processes is a critical factor in the sustainability practices of small business owners (Havuginoti, 2024). Entrepreneurs with high financial capabilities are better equipped to implement strategies that safeguard their business entities against unforeseen economic shocks (Obiora, 2023). This relationship is particularly evident in how financial knowledge influences the financial performance and resource allocation of small and medium-sized enterprises (Yakob et al., 2021). In emerging economies, financial literacy empowers owners to make informed choices regarding capital structure and investment, which are essential for maintaining a sustainability-performance nexus (Meressa, 2023). Furthermore, financial knowledge fosters trust in financial institutions, which facilitates better access to credit and formal financial services (Van der Crujisen et al., 2021).

Sectoral Perspectives on Business Sustainability

In the construction industry, financial literacy plays a specialized role in the adoption of advanced technologies like Building Information Modelling (BIM), which are key drivers of sustainable growth for SMEs (Saka et al., 2020). For women-owned microenterprises, financial literacy acts as a significant influence on entrepreneurial sustainability, helping to bridge the gap in resource access (Gichuru, 2025). Similarly, in niche markets such as halal businesses, financial literacy is identified as a significant factor for maintaining competitive advantage and operational longevity (Yasin et al., 2020). Even in the context of modern financing, such as security-based crowdfunding, the financial literacy of the entrepreneur remains a determining factor in successfully securing and managing funds (Meoli et al., 2022).

Regional Evidence and Resilience

Empirical evidence from various African contexts, including Namibia and South Africa, highlights the direct correlation between financial literacy and the financial sustainability of micro-businesses (Fillipus & Canicio, 2024). In Nigeria, the integration of financial capabilities into sustainable business model practices has proven essential for the resilience of small business owners (Babajide et al., 2023). Moreover, financial literacy mitigates financial stress and improves the overall financial well-being of business operators, particularly those in vulnerable economic groups (Rahman et al., 2021). The ability to innovate within small enterprises is also heavily dependent on the owner's financial literacy, as it provides the necessary framework for managing innovation risks (Liu et al., 2021). Systematic reviews of the literature confirm that a robust framework for financial literacy is necessary to guide future inquiry and policy for SME sustainability (Graña-Alvarez et al., 2024).

Theoretical Framework

The foundation of this study is anchored in two primary theories: the **Resource-Based View (RBV)** and the **Theory of Planned Behavior (TPB)**. These theories provide the structural logic for understanding how internal capabilities, such as financial literacy, translate into long-term business sustainability for small contractors.

Resource-Based View (RBV)

The Resource-Based View (RBV) suggests that a firm's competitive advantage and long-term sustainability are derived from its control over resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991; Meressa, 2023). In the context of small contractors, financial literacy is treated as an intangible strategic resource.

Unlike tangible assets like machinery, the financial knowledge possessed by a contractor is difficult for competitors to replicate and is essential for navigating the high-risk environment of construction projects (Liu et al., 2021). By applying RBV, this study argues that financial literacy allows contractors to optimize their internal financial capabilities, leading to more resilient and sustainable business models (Babajide et al., 2023). This theory supports the study by explaining why differences in financial knowledge lead to variations in the sustainability levels of different firms.

Theory of Planned Behavior (TPB)

While RBV focuses on the resource itself, the Theory of Planned Behavior (TPB) explains the human element—how the contractor’s knowledge influences their actual management actions. TPB posits that an individual’s behavior is determined by their intention, which is influenced by their attitude, subjective norms, and perceived behavioral control (Ajzen, 1991; Rahman et al., 2021). In this study, financial literacy enhances a contractor’s "perceived behavioral control," making them feel more capable of managing project costs and debt effectively (Havuginoti, 2024). This increased confidence leads to better financial behaviors, such as consistent record-keeping and strategic bidding, which are precursors to business sustainability (Obiora, 2023). TPB supports the study by providing a psychological link between what a contractor knows (literacy) and what they actually do (sustainability practices).

Integration into the Conceptual Framework

The integration of these theories forms a cohesive conceptual framework where financial literacy acts as the independent variable (the resource and driver of behavior) and business sustainability acts as the dependent variable (the outcome of strategic resource use). Within this framework, the RBV explains the "Strategic Capacity" of the firm, ensuring that financial literacy is viewed as a tool for innovation and environmental sustainability (Luo & Cheng, 2023). Simultaneously, the TPB explains the "Operational Mechanism," showing how literacy influences the decision-making and risk-taking behaviors of the contractor (Maravilla Jr & Flores, 2025). By merging these two perspectives, the conceptual framework illustrates that sustainability is achieved only when the contractor possesses the necessary financial resources (RBV) and the behavioral intention to apply them correctly (TPB) in their daily operations (Fillipus & Canicio, 2024)

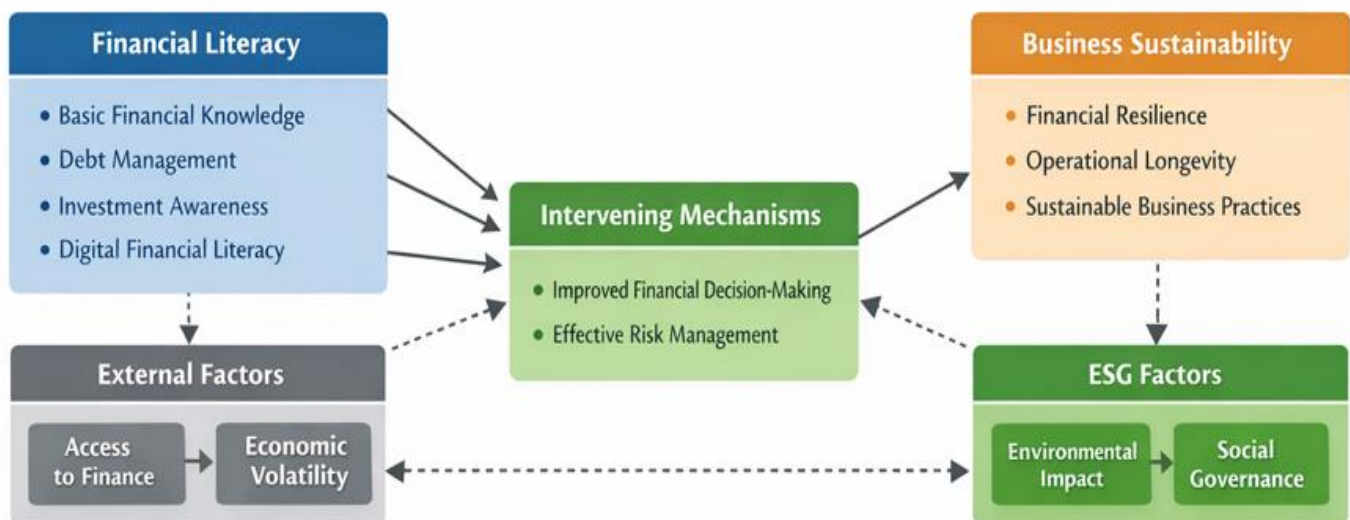


Figure 2.1: Conceptual Framework

The implementation of this conceptual framework offers a strategic roadmap for small contractors to transition from fragile, project-to-project survival to long-term business sustainability. By systematically addressing the variables outlined, contractors can mitigate industry-specific risks and build resilient enterprises.

Practical Impact on Operational Management

The most immediate practical impact of applying this framework is the enhancement of "Financial-Managerial" capacity (Graña-Alvarez et al., 2024). Small contractors often suffer from the "technical trap," where they excel at construction but fail at project accounting. By integrating the dimensions of debt management and cost control, contractors can avoid the common pitfall of under-bidding—a major cause of insolvency in the sector (Farahvashi, 2025). Practically, this means using financial literacy to maintain liquid cash buffers, allowing the business to survive the delayed milestone payments that are characteristic of the construction industry (Msomu & Olarewaju, 2021).

Knowledge Impact and Behavioral Transformation

Using the framework facilitates a deep knowledge impact by shifting the contractor's mindset from short-term profit to long-term sustainability (Maravilla Jr & Flores, 2025). Based on the Theory of Planned Behavior, as contractors acquire digital financial literacy and risk-assessment skills, their "perceived behavioral control" increases (Havuginoti, 2024). This knowledge empowers them to engage more confidently with formal financial institutions, leading to better credit terms and reduced reliance on predatory informal lending (Van der Crujssen et al., 2021). Furthermore, the framework encourages the adoption of "Sustainable Business Models," where knowledge of ESG (Environmental, Social, and Governance) factors becomes a competitive advantage when bidding for international or government contracts that require green compliance (Babajide et al., 2023; Luo & Cheng, 2023).

Achieving Business Sustainability

The framework helps achieve sustainability by acting as a "resilience filter" for decision-making. Through the Resource-Based View, financial literacy is treated as a rare and valuable internal resource that enables the firm to innovate and adapt to economic shocks (Liu et al., 2021; Meressa, 2023). When contractors use this framework to guide their operations, they achieve.

Financial solvency is a critical outcome of financial literacy among small contractors, particularly within the highly volatile and project-based construction sector. Contractors who possess strong financial management skills are better equipped to balance irregular cash inflows and outflows, which are often influenced by delayed payments, retention fees, and fluctuating project costs. Effective bookkeeping, budgeting, and cash flow monitoring enable contractors to maintain liquidity and avoid financial distress. Furthermore, sound debt management practices reduce the accumulation of bad debt and improve the firm's ability to meet its financial obligations, thereby strengthening overall financial stability. This capacity to maintain solvency ensures that contractors can continue operations even under adverse economic conditions and project uncertainties, ultimately enhancing their resilience and long-term viability (Yakob et al., 2021).

Beyond immediate financial stability, financial literacy also drives strategic growth and broader socio-economic contributions of small contracting firms. Financially literate contractors are more likely to adopt digital financial tools and advanced construction technologies such as Building Information Modelling (BIM), which improve project planning, cost efficiency, and resource utilization. These technological integrations reduce material waste, enhance productivity, and support sustainable business practices, positioning firms for competitive advantage and expansion. Additionally, the sustainability of such businesses contributes significantly to social and economic welfare by creating stable employment opportunities and supporting the development of essential infrastructure. As these firms grow and remain operational over extended periods, they play a vital role in national economic development and community stability, reinforcing the importance of financial literacy as a foundational driver of both business success and societal progress (Saka et al., 2020; Maravilla Jr & Flores, 2025).

CONCLUSION

The findings of this study underscore that financial literacy is not merely a supplementary skill but a fundamental driver of business sustainability for small contractors navigating the volatile construction landscape. Through

integrating the Resource-Based View and the Theory of Planned Behavior, the study concludes that when contractors possess robust financial knowledge, they develop the "strategic armor" necessary to manage project-based cash flow fluctuations and mitigate the risks of bad debt. The transition from short-term survival to long-term resilience is heavily dependent on the owner-manager's ability to move beyond technical construction expertise toward sophisticated financial-managerial decision-making. Ultimately, fostering financial literacy leads to the adoption of more sustainable business models, ensuring that small firms can withstand economic shocks, embrace digital innovations like BIM, and contribute consistently to national infrastructure and employment.

RECOMMENDATIONS

Based on the synthesized evidence, it is recommended that professional construction bodies and government agencies develop sector-specific financial literacy programs tailored to the unique "project-to-project" billing cycles of small contractors. These programs should prioritize training in digital financial tools and debt management strategies to reduce the high rate of insolvency among emerging firms. Furthermore, financial institutions should consider a contractor's "financial literacy certification" as a qualifying factor for credit access, thereby lowering the barriers to formal financing for knowledgeable small business owners. Contractors themselves must proactively invest in continuous financial education and integrate ESG principles into their operations to remain competitive in a modern economy that increasingly rewards transparency and sustainable performance. Finally, further research should be conducted to explore the specific impact of digital financial literacy on the adoption of green construction technologies across different regional contexts.

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