

**UNIVERSITY OF EDUCATION, WINNEBA**  
**COLLEGE OF TECHNOLOGY EDUCATION, KUMASI**  
**DEPARTMENT OF ACCOUNTING STUDIES EDUCATION**

**ASSESSING THE LEVEL OF FINANCIAL LITERACY AMONG BUSINESS OWNERS:**  
**A CASE STUDY OF KUMASI METROPOLITAN ASSEMBLY OF ASHANTI REGION, GHANA.**



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REGION, GHANA**

**BY**

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## DECLARATION

I hereby declare that this submission is my own work towards the MBA in Accounting and that, to the best of my knowledge, it contains no material previously published by another person or material which has been accepted for the award of any other degree of the University, except where duly acknowledged.

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## **DEDICATION**

I dedicate this thesis to my dearest and sweet loving husband, whose enormous help, time and contribution helped me in writing this work.



## TABLE OF CONTENTS

<b>Contents</b>	<b>Page</b>
ACKNOWLEDGEMENT .....	iiiiv
DEDICATION .....	v
TABLE OF CONTENTS.....	vi
LIST OF TABLES.....	ix
LIST OF FIGURES.....	x
LIST OF ABBREVIATIONS .....	xi
ABSTRACT.....	xii
CHAPTER ONE .....	1
INTRODUCTION.....	1
1.1 Background of the Study.....	1
1.2 Problem Statement.....	3
1.3 Study Objectives .....	4
1.4 Research Questions.....	4
1.5 Justification .....	5
1.6 Organization of the Study .....	6
CHAPTER TWO .....	7
LITAEATRE REVIEW.....	7
2.0 Introduction .....	7
2.1 Theoretical Review.....	7
2.1.1 Financial Literacy.....	7
2.1.2 Financial Literacy and Behaviour .....	10
2.1.3 The Benefits of Financial Literacy .....	11
2.1.3.1 Increased Saving and Retirement Planning .....	11
2.1.3.2 Investing and Choosing the Right Financial Products with Confidence.....	12
2.1.3.3 The Benefits to the Community .....	12
2.1.3.4 Financial Inclusion .....	13
2.1.3.5 Understanding Government Financial Policies .....	13
2.1.4 Financial Education .....	14

2.1.5	Financial Capability .....	14
2.1.6	Financial Distress.....	14
2.2	Empirical Review .....	15
2.3	Entrepreneurialism in Ghana .....	17
2.4	Financial Literacy and Small Business Performance .....	18
CHAPTER THREE .....		21
METHODOLOGY .....		21
3.0	Introduction .....	21
3.1	Research Design .....	21
3.2	Formation of the Survey Instrument .....	21
3.3	Population of the Study .....	22
3.4	Sample Size and Sampling Techniques .....	22
3.5	Data Collection.....	23
3.6	Data Analysis .....	23
CHAPTER FOUR .....		25
DATA ANALYSIS, RESULTS AND DISCUSSION .....		25
4.0	Introduction .....	25
4.1	Demographic Characteristics of Respondents .....	25
Table 4.1: Demographic characteristics of respondents in the survey area .....		27
4.2	Financial Management of the Business .....	27
Table 4.2: Percentage respondents managing the finances of their businesses.....		28
Figure 4.1: Percentage respondents whose finances are managed by entities other than themselves. .....		28
4.3	Financial Behaviour and Attitudes .....	29
4.3.1	Preparation of Business Plan .....	29
Table 4.3: Respondents (%) indicating the usefulness of business plan at the beginning of a business		29
Table 4.4: Availability of business plan at the beginning of a business .....		30
4.3.2	Cash Flow Preparation .....	30
Table 4.5: percentage respondents on cash flow preparation .....		30
Figure 4.2: Frequency of cash flow forecast preparation .....		31
4.3.3	Business Profitability Analysis.....	31
Figure 4.3: Frequency of businesses' profitability analysis.....		32

Figure 4.4: Determinants of financial knowledge.....	33
Table 4.6: Results of the regression analysis .....	33
CHAPTER FIVE .....	35
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS .....	35
5.0 Introduction .....	35
5.1 Summary of Findings.....	35
5.2 Conclusions .....	36
5.3 Recommendations .....	37
REFERENCES .....	38
APPENDICES .....	42





## LIST OF TABLES

Table	Page
4.1: Demographic characteristics of respondents in the survey area .....	27
4.2: Percentage respondents managing the finances of their businesses .....	28
4.3: Respondents (%) indicating the usefulness of business plan at the beginning of a business	29
4.4: Availability of business plan at the beginning of a business .....	30
4.5: percentage respondents on cash flow preparation .....	30
4.6: Results of the regression analysis .....	33



## LIST OF FIGURES

Figure	Page
4.1: Percentage respondents whose finances are managed by entities other than themselves. ....	28
4.2: Frequency of cash flow forecast preparation.....	31
4.3: Frequency of businesses' profitability analysis .....	32
4.4: Determinants of financial knowledge.....	33



## LIST OF ABBREVIATIONS

AGI	Association of Ghana Industries
SMEs	Small and Medium Enterprises
OECD	Organisation for Economic Cooperation and Development
SPSS	Statistical Package for Social Scientist
EFEP	European Financial Education Partnership
KMA	Kumasi Metropolitan Assembly
NBSSI	National Board for Small Scale Business Industries



## ABSTRACT

This study investigated the level of financial literacy among business owners within the Kumasi Metropolitan Assembly. It also identified the factors affecting the level of financial literacy among small and medium businesses. Questionnaires were developed and administered to 100 selected business owners within the study area. Multiple Regression analysis was performed to test for the relationship between factors that affects people's financial literacy. Results indicate that majority of respondents have not had any form of education. Business owners (respondents) were asked to state whether or not they are responsible for managing the finances of their enterprises. The results show that 74% of the respondents are the financial managers of their business as against 26% who said they employ the services of professionals to manage their finances for them. It was revealed that most of the respondents do not apply best practices in managing their businesses. They do not have business plan for their businesses and also do not prepare cash flow forecast. A multiple regression analysis conducted found respondents' level of education ( $b = -0.345$ ,  $p = 0.000$ ), to be the only factor which influences their level of financial knowledge. Other factors such as age, gender, field of study and years in business have no influence on respondents' level of financial knowledge. Based on the results of this study, workshops should be organised by the Association of Ghana Industries (AGI) on proper financial management so as to ensure prudent and efficient financial management practices among business owners. The study also recommend that business owners and potential business owners should be educated by the AGI on some of the basic financial issues and best practices in the course of their studies or training irrespective of their field of study, so as to develop a nation of financially literate business people.

## CHAPTER ONE

### INTRODUCTION

#### 1.1 Background of the Study

Financial literacy, has, in recent years, attracted the interest of various groups, including governments, bankers, employers, community interest groups, financial markets, and other organizations, especially in developed countries and quiet recently in developing countries. It is recognised as the basic apparatus for development with issues identifying with budgeting, savings, investment and the administration of risks which are significant for the individuals, households and businesses in their developmental procedure. Financial literacy requires that a person knows and understands the forms, functions and use of money and financial services.

In today's world financial literacy is important to every individual who wishes to select the best way to carry out payments and take care of banking issues. The importance of improving financial literacy has increased because of factors including the development of new financial products, the complexity of the financial markets, and changes to political, demographic, and economic variables.

The Organisation for Economic Cooperation and Development (OECD) defines financial literacy as a blend of awareness, knowledge, skill, attitude and behaviour important to settle on solid financial decisions and eventually accomplish individual financial wellbeing (International Network on Financial Education, 2011). It is therefore the ability to understand how money works in the world; how one manages to earn or make it, how it is managed, invested and as donation to help others. It is course of action which is

helpful for individuals to gain a better understanding of monetary products, services and concepts. To understand money and how it works, it is important to understand common financial literacy principles such as; financial goals, budgeting, investments, superannuation, contracts and employment models.

Research studies across countries on financial literacy have shown that most individuals including entrepreneurs don't understand the concept of compound interest and some consumers don't actively seek out financial information before making financial decisions (Jappelli, 2010; Beckman, 2013). Many people fail to plan ahead and they take on financial risks without realizing it.

The importance of financial literacy is not only expressed in the failure of small businesses and its consequences (Pearl and Eileen, 2014), but also plays an important role among those business owners because it provides the financial tools needed to make informed decision, through the accurate understanding of financial information, which largely contributes to the future success of the company. Otherwise, decisions may be poorly taken or lead to advice of accountants or financial advisors (Brown et al., 2006).

The Ghanaian economy is greatly dependent on activities of small businesses, including small enterprises and micro enterprises. Small businesses could therefore be said to be the backbone of the Ghanaian economy, so when the financial literacy skills of small business owners fall short, it is more than the individual business that is at risk. Business owners must therefore have the apparatuses to adapt to the undeniably complex world of financial instruments.

The focus of this study is to examine the impact of financial literacy on business start-ups and their management among businesses in Ghana. It also seeks to determine the ability of business managers to manage personal finances in an efficient manner, and it includes the knowledge of making appropriate decisions about personal finance such as investing, insurance, real estate, paying for college, budgeting, retirement, and tax planning. For the purpose of this study, what constitutes financial literacy, its impacts on diverse areas of life and its application to businesses shall be narrowed to business people (entrepreneurs).

## **1.2 Problem Statement**

For a long time, consciously or unconsciously, there has been witnessed of new ventures opened, be it small, medium or large, but within the shortest possible time all you see is a very large padlock closing the premises of this once booming business. Unfortunately, the moment a business closes, another opens. Surprisingly the same sad story is repeated and the cycle seems unending. As such, one cannot avoid seeing the long chain of shops and business premises by the road side under lock and key which inadvertently occupying space with no clear indication of when the owners of these businesses intend to return to their operations.

The question is what drives these businesses oriented people to start a business in the first place if in the end the business is closed down permanently without the desire to come back. Could it be the problem about the knowledge of source of funding, management of capital invested or ignorance of how best to grow their businesses, financial wise.

Considering the importance of small businesses to the national economy and the little attention that scientific community has given to the measurement of financial literacy

levels among these businesses community, this study seeks to fill this gap by assessing the levels of financial literacy among business owners in Ghana.

### **1.3 Study Objectives**

The objective of this study is to provide statistical evidence of the relationship between financial literacy levels of business owners and the operating performance of their firms, and, in the case of a significant positive correlation, highlight the importance of providing to business owners adequate financial education on the expectation of improving their performance as business leaders.

Specifically, the study seeks to:

1. To assess how small and medium business owners manage their businesses;
2. To determine the level of financial literacy among small and medium business owners;
3. Identify the factors affecting the level of financial literacy among small and medium business owners.

### **1.4 Research Questions**

This study is guided by the following research questions;

1. What is the level of financial literacy among small and medium business owners?
2. How do small and medium scale business owners manage their businesses?
3. Is there positive correlation between level of education attainment and level of financial literacy?



## 1.5 Justification

Financial literacy is seen as an important instrument for the success of businesses, since it helps to understand and evaluate the information needed to make daily decisions that have financial impacts on companies' day-to-day management. Therefore, the goal of this research is twofold: to assess the financial literacy levels of business owners and the relation between these results and the operating performance of those companies, as a measure of business economic performance. The study tests the hypothesis that, all other factors being constant, a higher financial literacy level of business owners should motivate a better performance of the company into a foreseeable future.

It is evidenced that entrepreneurs who are less financially literate are liable to confront more difficulties as to debt management, savings and credit and are more averse to plan for the future (Zimmerman, et al., 2011). It is therefore prudent that business owners are given education on financial knowledge focusing on financial literacy, which includes setting financial goals, developing an expenditure plan, using credit wisely, saving for emergencies and learning not to spend exceeding their income. To this end, the study seeks to bring out entrepreneurs' understanding of pertinent issues in finance such as money management, savings and borrowing, investments and insurance and retirement planning. In a situation where business owners are able to manage their finances properly, the burden on the government to provide bail out to start-ups may be considerably reduced, since some of these facilities are provided by insurance companies. Moreover, information from this study could serve as a guide to the Ministry of Trade and Industry in formulating policies and guidelines to compel start-ups to follow in order

to ensure their survival. The findings of this study will help entrepreneurs leverage other people's money for business to generate sales and profits.

## **1.6 Organization of the Study**

The thesis has been organised into five chapters. Chapter One encapsulates the introduction to the study, statement of the problem, objectives, and research questions, justification, scope and limitations and the organisation of the study. Chapter two focuses on the literature review, which reviews literature that has both direct and indirect connection to the subject matter and what propelled their position and contemplations on the topic. The third chapter emphasises the research methodology. It also outlines the techniques that have been applied and how the research is designed, the data collection method and instruments used, described, the models used also specified and how data is analysed. Chapter four presents the findings and discussions of the data. Primary data are analysed, presented and discussed. Chapter five draws conclusions from data gathered and makes recommendations for national and international interest and for probable future research.

## **CHAPTER TWO**

### **LITAEERATURE REVIEW**

#### **2.0 Introduction**

This section provides an analytical view of what various researchers and writers have said on financial literacy through the use of journals, newspapers, reports, conferences, books and internet materials to assess the level of financial literacy among entrepreneurs with regard to their general knowledge in finance, savings, borrowing, investment and insurance. The literature review provides background and justification for the research undertaken.

#### **2.1 Theoretical Review**

Entrepreneurship has long been perceived little more than an applied trade as opposed to an academic area of study. For a long time there was no research to be accomplished because it was thought that those who could not attend college would simply practice the concept of new business start-up. Due to small and medium enterprises (SMEs) critical role in economic growth, many research studies have now been carried out to deepen understanding of entrepreneurship. In this study we review some of the concepts that are relevant to this study.

##### **2.1.1 Financial Literacy**

Financial literacy, for many years, does not have a unanimous definition in literature, although, recently, Atkinson and Messy (2012) provide an embracing and widely

accepted definition of financial literacy hinging on three main pillars: financial knowledge, attitudes and behaviours.

Around the world, popular media and public in general used certain terms synonymously to describe the concept of financial literacy, for example financial capability, financial culture, financial knowledge and financial education (Huston, 2010). Also, past studies reveal that in some countries there was a certain trend to consider the studies related with financial knowledge as a good approach of financial literacy (Atkinson and Messy, 2011). Despite, at that time, the literature could not present a consensus relating to a universal definition of financial literacy, the definitions found were designed around same basis and also around the same goal, the individual financial wellbeing.

An example of the financial literacy basis is possible to see through the definition presented by the authors Schagen and Lines (1996), where they define financial literacy, as the ability to make informed judgments and to take effective decisions regarding the use and management of money.

According to Remund (2010), financial literacy is a measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision making and sound, long-range financial planning, while mindful of life events and changing economic conditions.

The Organisation for Economic Cooperation and Development (OECD), through the work pioneered by Atkinson and Messy (2012), provide not only an embracing term that could include financial knowledge, financial ability, financial culture, etc., as financial literacy, but also a complete and widely accepted definition of financial literacy. This

definition gathers three important concepts; knowledge, attitudes and behaviours, which have now become the pillars that completely describe financial literacy. Financial literacy can therefore be described as the combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing (Atkinson and Messy, 2012).

The main progress in financial literacy found in literature began after the subprime mortgage crisis in the United States in 2007, when it was concluded that lack of financial culture was an aggravating factor of this crisis (Huston, 2010). It was found that a common practice that caused subprime mortgage crisis was the application of investor's savings in complex financial products without fully understanding its risks. On the other hand, financial institutions were selling financial products without being able to fully understand its financial complexity.

The recent developments in financial literacy research focus on personal finance issue, through the assessment of the levels of financial literacy of the general public with the aim of justifying the need for financial education, which is believed to help decrease the asymmetric information between citizens and financial institutions and, as a consequence, improve the financial markets efficiency.

A review by Marcolin and Abraham (2006) compares and analyses past studies conducted in Australia, United States and United Kingdom, relating to financial literacy during that period. One of the main findings of the authors was concerned with the huge difference among financial literacy measurement of past studies, which result in a great difficulty in creating a true benchmark for the results obtained in those different

countries, identifying a gap for future research. They emphasized that financial literacy is a pillar to support the need for financial education, since financial illiteracy was seen as one of the reasons for financial instability. This phenomenon is a consequence of the easy access to credit and the ready issue of credit cards, alongside the fast growth of marketing of financial products.

A major worry at that time was the final consumer protection from the lack of information, mainly, from financial institutions, being the goal of financial education to increase the number of informed costumers in order to help them make better decisions and to minimize the chances of them being misled on financial matters (Marcolin and Abraham, 2006). The competition between financial institutions to gain market share increases this phenomenon of asymmetric information.

Another socio-economic happening that largely supports the need for financial education is Government's encouragement of its citizens to take more self-responsibility for their retirement incomes. Governments around the world are concerned with this problem and are changing their course by encouraging citizens to take more responsibility for their retirement incomes rather than depending solely on public pensions (Beal and Delpachitra, 2003).

### **2.1.2 Financial Literacy and Behaviour**

Several studies have shown that financial literacy is positively related to self-beneficial financial behaviour. Hilgert, et al (2003) added financial behaviour and financial literacy questions to the nationwide Survey of Consumer Finances. They formed a Financial Practices Index based upon behaviour in four variables: cash-flow management, credit

management, savings, and investment practices. Comparing the results of this index with scores on the financial literacy quiz, they found that those who were more financially literate had higher Financial Practices Index scores, indicating that financial knowledge is related to financial behaviour. In a study of Dutch adults, Van Rooij, et al (2007) found that those with low financial literacy are more likely than others to base their behaviour on financial advice from friends and are less likely to invest in stocks. Mandell (2006) found that high school seniors with higher financial literacy scores were less likely than others to bounce a check and more likely to balance their check books.

### **2.1.3 The Benefits of Financial Literacy**

Financial literacy gives the vital information, capacities and apparatuses for people to settle on educated financial decisions with certainty, to oversee personal riches with proficiency and to increase financial skill to request better financial services (Ali, 2013). Expanding financial literacy and capability advances better financial decision improving and along these lines empowering planning and administration of life occasions, for example, instruction, house purchase, or retirement (Mahdzan and Tabiani, 2013).

Capuano and Ramsay (2011) enumerated a number of benefits associated with financial literacy to consumers (individuals), community and the broader economy.

#### **2.1.3.1 Increased Saving and Retirement Planning**

Financially literate individual has a more noteworthy ability to save for retirement. This can be accomplished by financial efficiency which brings about saving money, attempting to set aside money and an upgraded capacity to set reasonable retirement

objectives and select suitable investments to realise those retirement objectives. A better-informed consumer will save for the future, for retirement and for unforeseen circumstances including emergencies (European Financial Education Partnership (EFEP), 2011). A Survey, led by the Employee Benefit Research Institute in the United States, perceived issues that make financial education to an extraordinary degree indispensable, to be particular that lesser people are planning and saving for retirement. Moreover, only 46 per cent of participants had attempted to calculate the amount they would require for retirement. Numerous Studies have connected financial illiteracy with low levels of savings (Jappelli, 2010; Beckman, 2013).

#### **2.1.3.2 Investing and Choosing the Right Financial Products with Confidence**

A financially educated customer will be surer when settling on choices about finance. Financial proficiency can impact the sorts of items chosen, and the sorts of investments made. The quick moving nature of financial markets implies that people who comprehend product components and business environments are best situated to settle on an educated decision about their financial needs. This likewise prompts consumers and keeps them away from unnecessary costs. An enhanced comprehension of financial products and administrations grows more noteworthy financial trust in buyers, who select the most fitting products and arrange those products (Holzmann, 2010).

#### **2.1.3.3 The Benefits to the Community**

Financial literacy additionally has extensive advantages to the community, specifically improving consideration in the financial markets and expanding the mindfulness by



general society of financial issues, subsequently making an educated citizenry which can assess the fittingness of government financial approaches.

#### **2.1.3.4 Financial Inclusion**

More noteworthy financial comprehension and information permits those individuals from society who otherwise are generally avoided the chance to utilise financial items and services. For instance, knowledge of a term deposit may incite a man to gain more interest though no knowledge of the presence of such a product will bring about less interest being earned and an opportunity lost. Financial literacy gives the comprehension needed to access specific items which permit people to borrow and turn out to be financially dynamic. Financial literacy, along these lines, builds social inclusion and gives individuals the knowledge to keep away from very valued, capricious and less secure types of credit and financial items.

#### **2.1.3.5 Understanding Government Financial Policies**

Financially literate individuals are additionally ready to better survey financial approaches of governments and the activities of financial institutions. This makes better-educated citizens who are capable to comprehend policy change to the financial sector. While numerous political changes are highly complex, straightforward financial sector changes which can be seen by an educated public are essential in light of the fact that they give the public the capacity to investigate government policies. In countries with diverse social and economic profile like India, financial literacy is particularly relevant for people who are resource-poor and who operate at the margin and are vulnerable to persistent downward financial pressures.

#### **2.1.4 Financial Education**

Organisation for Economic Cooperation and Development (2005), characterises financial education as the procedure by which financial consumers/investors enhance their comprehension of financial products, concepts and risks and, through information, guideline and/or objective exhortation, add to the skills and certainty to end up more mindful of financial risks and opportunities, to settle on educated choices, to know where to go for help, and to take other successful activities to enhance their financial well-being.

#### **2.1.5 Financial Capability**

The first definition of the Scottish Government's Financial Capability Discussion Paper (2010) describes financial capability as the motivation to beneficially manage finances and effect change. Financial capability, in this manner, encompasses people's information and skills to understand their own financial circumstances, alongside the inspiration to make a move. Financially skilled consumers arrange ahead, discover and utilise information, know when to look for counsel and can comprehend and follow up on this guidance, prompting more noteworthy support in the financial services market (HM Treasury January, 2007). Sherraden (2010) broadened this meaning of financial capability by including access to financial services and resource building opportunities.

#### **2.1.6 Financial Distress**

According to Joo and Garman, (1998) financial distress refers to stress that is coming from a financial situation including personal, family and other various financial conditions. Delafrooz and Paim (2011), however extend this definition to incorporate economic distress, difficulties, constraints and stress. They also proved that there is an

immediate relationship between the levels of financial literacy and financial distress among workers in Malaysia. In fact, financial literacy is reported to have a negative association with financial problems (Sabri, 2011). All these conditions are financial stressors as postulated by Joo and Garman, (1998) and Garman, et al. (1989). Hibbert and Beutler (2001), finds that families who spend less than what they earn, pay charges on time, and avoid superfluous debt, have less family tension and an expanded feeling of self-esteem compared to families who spend above their incomes.

## **2.2 Empirical Review**

Fidler and Webster (1996) advocate that in many cases, basic business skill training should accompany the provision of micro loans to improve the capacity of the poor to use funds. Micro enterprise investment training mainly addresses capital investment decisions, general business management and risk management. Capital investment decisions include allocation of the microenterprise limited capital funds most effectively in order to ensure the best return possible. Therefore, a wrong decision can have long lasting effect not only on the profits but on very survival of the enterprise.

Bowen et al. (2009) researched on Management of business challenges among small and micro enterprises in Nairobi Kenya. The findings of the research indicated that over 50% of SSEs continue to have a deteriorating performance with 3 in every 5 small scale enterprises (SSEs) failing within months of establishment. Only 2.5% respondents saying their businesses were very successful. The results also showed that 49.5% of those who had received training in their areas of business reported that their businesses were doing well hence the conclusion that relevant training or education is positively related to

business success and recommendation that of the need for SSEs owners to get trained in an area that is relevant to the business carried.

Nyabwanga et al, (2011) in his study of the effect of working capital management practices on the financial performance of small scale enterprises in Kisii South district, Kenya, using a sample of 113 small scale enterprises and using a survey design established that majority of the small business owners or managers had just basic education and over 57% of these business operators hardly attend any business training programmes despite the establishment that over 60% of them had little or no knowledge in business the management hence were void of management skills vital in the running of their enterprises. The study also established that the performance of small scale enterprises on the average was low. The study recommended a study that will unravel the impact of training on the performance of businesses.

Simeyo et al (2011) in their study of the effect of provision of micro finance on the performance of youth micro enterprises under Kenya Rural Enterprise Program (KREP) in Kisii County using a sample of 86 youth micro enterprises established that training in micro enterprise investment had a significant positive impact on the performance of the microenterprises with a standardized beta coefficient of 0.281 which indicated that a unit increase in the provision of training to SSEs resulted to a 28.1% increase in performance. The study further established that majority of the respondents were very satisfied with the provision of capital investment and basic business skills training in micro enterprise investment. This suggests that the business skill training accompanying the provision of micro loans most likely improves the capacity of the entrepreneurs to use funds and hence impacts on business performance. In terms of business risk management, the

results showed that respondents were moderately satisfied in terms of achievement of business risk management skills. With the implication that the youth micro entrepreneurs were inadequately equipped with knowledge and skills of business risk management hence are unable to adequately deal with business risks and therefore in the event that such risks occur, their micro enterprises are significantly affected.

Bruhn and Zia (2011) in their study on the Impact of Business and Financial Literacy for Young Entrepreneurs in Bosnia and Herzegovina found that business outcomes and practices is the difference in effects of the training on individuals with below and above median financial literacy at baseline. They also found that both entrepreneurs with below and above median financial literacy changed some of their business practices, such as separating personal accounts from business, and making investments in their business; however, only entrepreneurs with above median financial literacy at baseline reported increases in sales and profits as a result of the training. These findings suggest that baseline knowledge and information conveyed in the financial training act as complements in increasing the productivity and sales of a business. They also found that entrepreneurs with relatively high ex-ante financial literacy exhibit improvements in sales due to the training program.

### **2.3 Entrepreneurialism in Ghana**

Common entrepreneurships include farming, hawking, public transport service, professional services such as lawyers and doctor, hospitality etc. Most SMEs operates in urban areas but majority of farming takes place in rural areas. Entrepreneurship cuts across all the demographics in Ghana. Men and women, young and old, educated and

uneducated are all involved in entrepreneurship. Most small enterprises are family owned and are run by two or more employees who are mostly immediate family members. SMEs starting capital is usually small and is mainly raised from personal savings, inheritance, and borrowings. The main lenders to small enterprises are microfinance lending institutions, commercial banks and government sponsored funds such as MASLOC.

#### **2.4 Financial Literacy and Small Business Performance**

The literature on small business owner's financial literacy provides a slightly different definition of financial literacy, being the main distinction related with the understanding of information provided by financial statements. Instead, financial knowledge focuses on the comprehension of borrowing and saving matters, interest compounding, concept of inflation and risk diversification. A small business owner must be able to evaluate the information needed to make decisions that have financial ramifications or consequences on the business.

According to Brown et al. (2006), the level of financial literacy for small business owners is the ability to read and understand fundamental financial statements, as well as, the ability with numbers, in order to make informed judgments and to make effective decisions regarding the use and management of money.

A recent work from two authors describes financial literacy as the ability to understand and use business financial statements to generate key financial ratios to evaluate and manage a business (Pearl and Eileen, 2014). Despite the definition of financial literacy regarding personal finance issue being more developed and widely accepted, the

definition of financial literacy regarding small business is much more demanding. It is not only for financial knowledge, which must include the capability of reading and understanding financial statements information, but also in financial behaviour, with the potential of analysing financial information and financial preferences or attitudes, which must be positively correlated with financial knowledge and behaviour, in the moment of taking the daily management decisions.

Many economies around the world are dependent on the success of small businesses, which is also the case of Ghana, it is important not only provide the levels of financial literacy of general public, but also gauge the levels of financial literacy of small businesses owners.

In most small businesses it is common to find the owners as employees, who mainly focus on the operational areas of the businesses, forgetting the strategy and planning of the business activity; where financial education could make the difference, by improving business owners' financial skills. Pearl and Eileen (2014), in a study found that there is a relation between financial literacy and the success of small businesses, by clearing the connection between the inadequate financial literacy and financial difficulties experienced by entrepreneurs.

Sage (2012) carried out a survey on Canadian Small Business Financial Literacy, with a sample of 300 small businesses, where it assesses the perceptions, knowledge and habits of small business owners related with financial and resources management. The results of this survey provide the perception of the respondents about the areas they need to learn more about (financial planning, tax payment and cash-flow), the areas they feel more

comfortable with (dealing with clients, dealing with suppliers and managing the finances of their businesses) and the areas where they fail most of the time (dealing with taxes, managing sales and marketing and managing the finances of their businesses).

Despite the findings of Sage Canadian Survey, their results are based on respondents' perceptions and not so much on specific understanding of financial statements, corresponding to the financial knowledge, which is a fundamental pillar to provide accurate levels of financial literacy. Additionally, some of the survey questions were asked in order to understand the frequency of usage of technology and accounting software, which is reasonable considering the institution which carried out the study.

Brown et al. (2006) carried out a study based on financial literacy of small businesses owner (entrepreneurs) in their first year of activity. The basis of this study is settled on a program called "Training in Business Basics", specially created for this population target of new small businesses with less than ten employees. The authors, in order to carry out their study, provided 147 small businesses of United Kingdom in their first three years of life with educational modules based on basic finance. The argument behind this study is on the belief that small business owners with the adequate financial education will be less needed of accountants and financial advisors on trust, in order to understand the financial position of their companies and make informed financial decisions by their own.

The major findings of the above studies are mainly related to perceptions of financial awareness and literacy. They concluded that even though the participants appeared to be aware of their own lack of financial literacy, still they did not perceive the importance of this matter in relation to other aspects of running a small business.



## **CHAPTER THREE**

### **METHODOLOGY**

#### **3.0 Introduction**

This chapter presents the strategy used for collecting and analysing the data which form the basis of this thesis. This includes the research design, study population, sample size and sampling technique, data collection instrument and analysis.

#### **3.1 Research Design**

The study was conducted using survey. A survey instrument aimed at depicting the manner in which financial literacy affects SMEs was designed to gather primary data for the study. The study made use of business owner's financial literacy scores against the level of success of their businesses. Financial literacy was measured by scoring simple financial literacy questions.

To test the validity of the survey instrument, two focus group discussions, made up of peoples in who are into various businesses, were organized to discuss the draft questionnaire. The information generated from the focus group discussion was used to refine the survey instrument for the study. The drafted questionnaire was pre-tested and amended to ensure that respondents better understood the questions.

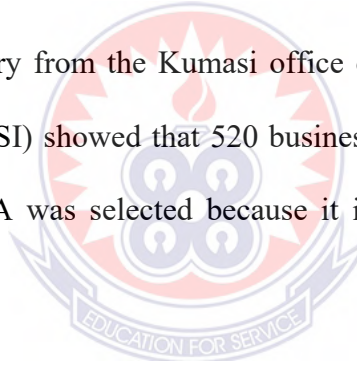
#### **3.2 Formation of the Survey Instrument**

Drafted survey instrument or questionnaire was pre-tested and amended to ensure that respondents better understood the questions. The questionnaire was structured around three sections in addition to an introductory statement and at the end a question

requesting the respondent's general observation (s) about the survey. In the introductory statement, the purpose of the survey is mentioned. The sections were put under the following headings; respondents' demographic characteristics, financial knowledge and financial behaviour and financial attitudes (Appendix A). Respondents were assured of confidentiality and that their responses are for academic purpose.

### **3.3 Population of the Study**

The full set of cases from which a sample is taken is called the population (Saunders, et al., 2012). The population targeted for the study comprises all registered small and medium business owners within the Kumasi Metropolitan Assembly (KMA) in the Ashanti region. An enquiry from the Kumasi office of National Board for Small Scale Business Industries (NBSSI) showed that 520 businesses have registered with the board since August, 2016. KMA was selected because it is seen as the business hub of the Ashanti region.



### **3.4 Sample Size and Sampling Techniques**

The sampling techniques used for this research were stratified and convenient sampling. Stratified sampling technique was used to obtain information from two categories of small and medium business owners in the metropolis. Convenience sampling was used to select respondents for the study. Convenient sampling was used because of time constraint.

Based on the formula put forward by Miller and Brewer, (2003) in calculating for sample size of a population, 226 respondents should have been selected. But because of time

constraint, a total sample of 100 small and medium business owners was selected from the population. Fifty respondents were selected from each stratum (i.e. small business owners and medium business owners) using convenience sampling. This gave an equal opportunity and fairness to business owners at all levels to participate in the survey.

### **3.5 Data Collection**

The survey instrument (questionnaire) was administered to small and medium business owners within KMA, constituting the major source of primary data for the study. In the metropolis, the interviewer entered the selected business premise and asked for the business owner. After introduction, if he/she agreed to participate, then the interview was started. A situation where the business owner was not present, the next person in charge was asked to participate in the interview and where he/she refused to respond to the survey, the interviewer moved to the next selected business. Most of the interactions were in Twi, the local language.

Where a respondent wanted to answer the questionnaire by himself/herself, the survey instrument is made available to him/her and where the respondent needed assistance, it was provided by the interviewer.

### **3.6 Data Analysis**

Data analysis involves reducing the raw data into a manageable size, developing summaries and applying statistical inferences. Consequently, the following steps were taken to analyse the data for the study. The questionnaire was coded and analysed using Microsoft Excel and Statistical Package for Social Sciences (SPSS) version 16. The

answers to the questions on financial knowledge, behaviour and attitudes were scored on the basis of correct answers regarding financial literacy and were converted into percentages. A Multiple Regression Model was run to determine the relation between the demographic characteristics of respondents and their level of financial literacy. The estimated model is specified as follows:

$$\text{Level of financial knowledge} = \beta_0 + \beta_1\text{YR} + \beta_2\text{FS} + \beta_3\text{Edu} + \beta_4\text{Age} + \beta_5\text{Gen} + e$$

Where:  $\beta_0$  is coefficient of the constant

$\beta$ 's are coefficients to explanatory variables to be estimated

YR = Years in business

FS = Respondent's field of study

Edu = Level of education

Age = Age

Gen = Gender and

e = error term



## CHAPTER FOUR

### DATA ANALYSIS, RESULTS AND DISCUSSION

#### 4.0 Introduction

In this chapter, data analyses were presented on the responses from the 100 small and medium scale business persons who were surveyed for the purpose of the study within the KMA in the Ashanti region. The chapter also presented discussions of the analysis.

#### 4.1 Demographic Characteristics of Respondents

The demographic characteristics of respondents are represented in Table 4.1 below. The sample consists of 44% male and 56% female. This shows that the females are in the majority. This shows that more females are engaged in small and medium scale businesses within the study area. The age categorization of the respondents shows that 36% were in between 30-39 years, 34% were between 40-49 years, 22% were over 50 years while 8% were within 20 and 29 years. The figures from the age groups suggest that majority of the respondents were within the 30-39 and 40-49 years categorizations. These are the people who might have tried other sources of livelihoods and have ended up with small or medium scale businesses.

Majority of the respondents (36%) have not had any form of education while 15% of the respondents have senior high education and graduate education. Thirteen percent of the respondents have completed primary education while 5% have attained post graduate education. Atkinson and Messy, (2012) found similar results in a study they conducted

and argued that individuals with higher education levels exhibit a higher financial literacy level.

The field of study of respondents who attended school was also surveyed. The results indicate that 20.7% and 19% of respondents specialized in sciences and economics respectively. Humanities and business related courses recorded 17.2% and 15.5% respectively while 13.8% of the respondents studied agriculture. Studies have shown that one's field of study contribute to his/her financial knowledge levels. Chen and Volpe (1998) examined the personal financial literacy of 924 college student from 13 campuses in the USA. The results of the study showed that subgroups of academic discipline and class rank were essentially diverse as far as financial literacy level. The study concluded that individuals who studied economics or business courses are more prone to be financially knowledgeable.

The number of years one has stayed in business offers the person some perspectives on how to run his or her business and this was assessed in this study. Majority of the respondents (46%) have been in business between 5-10 years. 31% of them have been in business between 11-20 years, 18% are in business within 1-5 years while 5% have been in business for over 20 years. Chen and Volpe (1998), demonstrate that in terms of participants' years in business, participants with more years of work experience are more knowledgeable compared to those with less experience.

**Table 4.1: Demographic characteristics of respondents in the survey area**

<b>Demographic characteristics</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Gender</b>		
Male	44	44
Female	56	56
<b>Age (In years)</b>		
20-29	8	8
30-39	36	36
40-49	34	34
50 and above	22	22
<b>Level of Education</b>		
No schooling	36	36
Primary education	13	13
Senior high education	15	15
Training certificate	10	10
Graduate degree	15	15
Post graduate	5	5
Don't wish to disclose	6	6
<b>Field of study</b>		
Business	9	15.5
Economics	11	19
Humanities	10	17.2
Sciences	12	20.7
Agriculture	8	13.8
Others,	8	13.8
<b>Number of years in this business</b>		
Less than 5 years	18	18
Five to less than 10 years	46	46
Eleven to less than 20 years	31	31
Twenty years and above	5	5

(Source: Field Survey, July 2017)

#### **4.2 Financial Management of the Business**

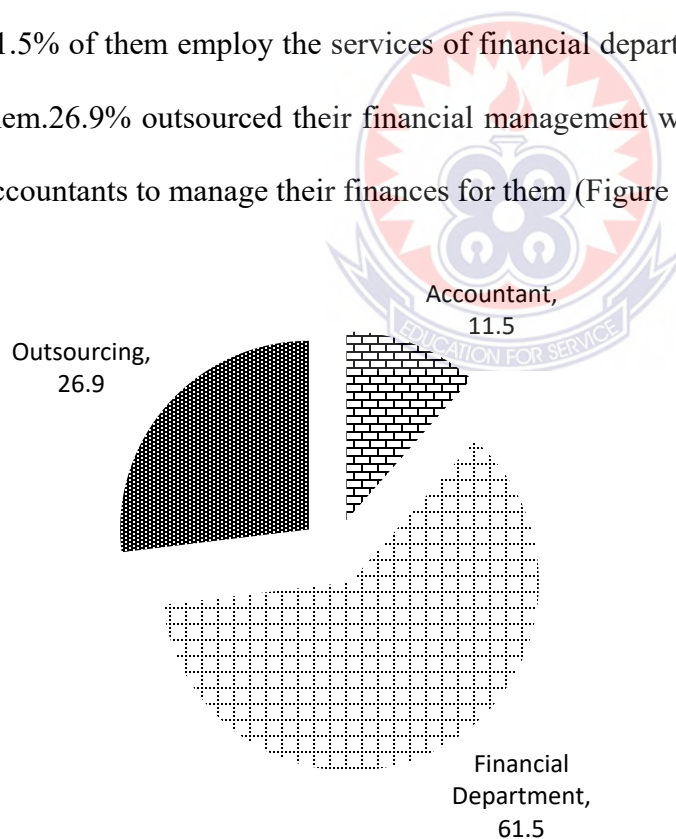
Business owners (respondents) were asked to state whether or not they are responsible for managing the finances of their enterprises. The results show that 74% of the respondents are the financial managers of their business (Table 4.2). About 26% of the respondents

said they employ the services of other professionals to manage the finances of their businesses.

**Table 4.2: Percentage respondents managing the finances of their businesses**

Financial management	Number of respondents	Percent
Yes	74	74
No	26	26
Total	100	100

Respondents who said they are not responsible for managing their finances were further asked to state those who manage their finances for them. The responses indicate that 61.5% of them employ the services of financial departments to manage their finances for them. 26.9% outsourced their financial management while 11.5% employ the services of accountants to manage their finances for them (Figure 4.1).



**Figure 4.1: Percentage respondents whose finances are managed by entities other than themselves.**



The practice of outsourcing the financial management is evidenced in a study by Brown et al (2006). The results found that most business owners entrust the management of their finances to accountants and other sources.

### 4.3 Financial Behaviour and Attitudes

Respondents were asked a number of questions to determine their financial behaviour and financial attitude.

#### 4.3.1 Preparation of Business Plan

Respondents were asked to state the usefulness of preparing business plan at the beginning of a business. About 53% of the respondents answered that it is important while 47% said it is not important (Table 4.3).

**Table 4.3: Respondents (%) indicating the usefulness of business plan at the beginning of a business**

Usefulness of business plan	Number of respondents	Percent
Nothing important	32	32
Not too important	15	15
Important	35	35
Very important	16	16
Very much important	2	2
Total	100	100

It could be seen from the results that many of the respondents considered business plan as important but when asked to state whether they have business plan for their businesses, a whopping 73% of the respondents said they do not have business plans for their businesses (Table 4.4). This shows that most of these small and medium scale businesses

within the study area do not have business plan and therefore may not have direction for their businesses. This could be a contributory factor to the collapse of some these businesses few years after their establishment. The finding of this study is in consonance with Pearl and Eileen, (2014), who found that most business owners do not have business plan.

**Table 4.4: Availability of business plan at the beginning of a business**

Availability of business plan	Frequency	Percent
Yes	73	73
No	27	27
Total	100	100

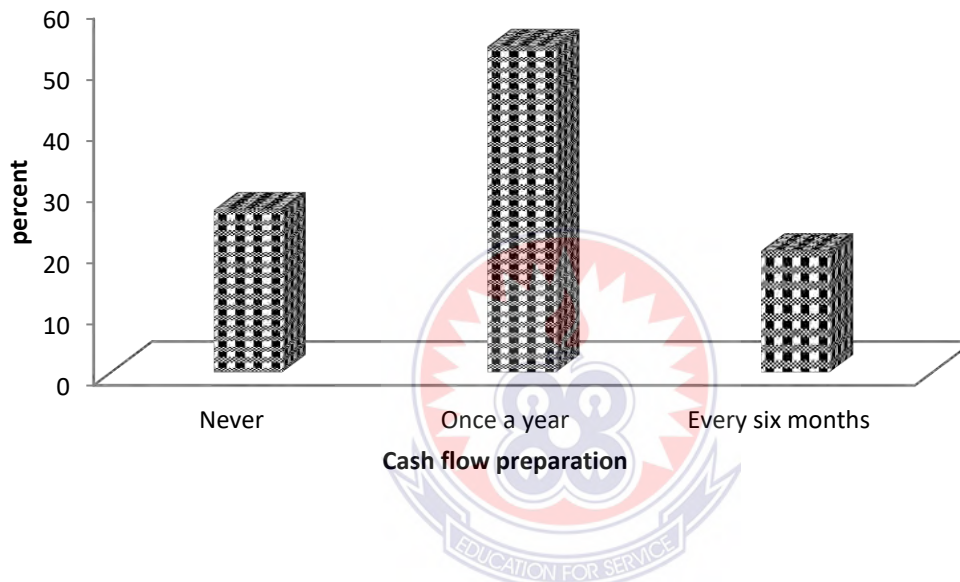
#### 4.3.2 Cash Flow Preparation

The study also included questions about cash flow forecast and preparation due to its contribution as stated by Brown et al. (2006). The results (Table 4.5) show that 84% of the respondents (business owners) do not know how to prepare cash flow forecast. Only 16% of the respondents are able to prepare cash flow forecast. This shows that most of the respondents do not follow the best behaviour in their businesses. Tania I.M.F, (2015) found similar results in a study she conducted. She concluded that majority of business owners who responded to her survey do not prepare cash flow.

**Table 4.5: percentage respondents on cash flow preparation**

Preparation of cash flow	Frequency	Percent
Yes	16	16
No	84	84
Total	100	100

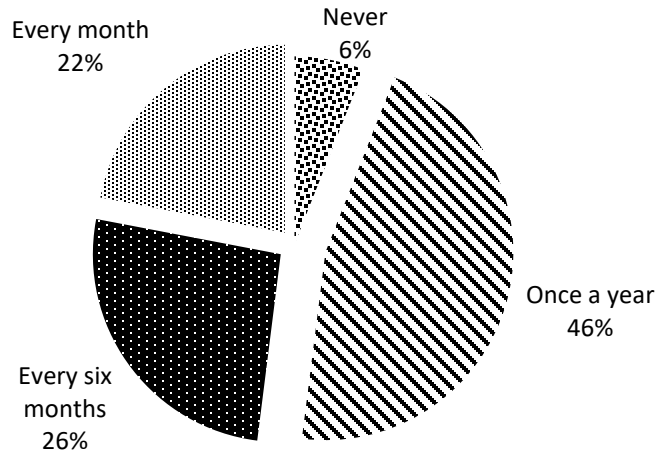
Respondents who said they know how to prepare cash flow were further asked to state how often they prepare it for their businesses. The results indicate that 53.3% of the respondents prepare cash flow once a year while 26.7% have never prepared it before. The remaining 20% said they prepare it every six months. The results are represented in Figure 4.2 below.



**Figure 4.2: Frequency of cash flow forecast preparation**

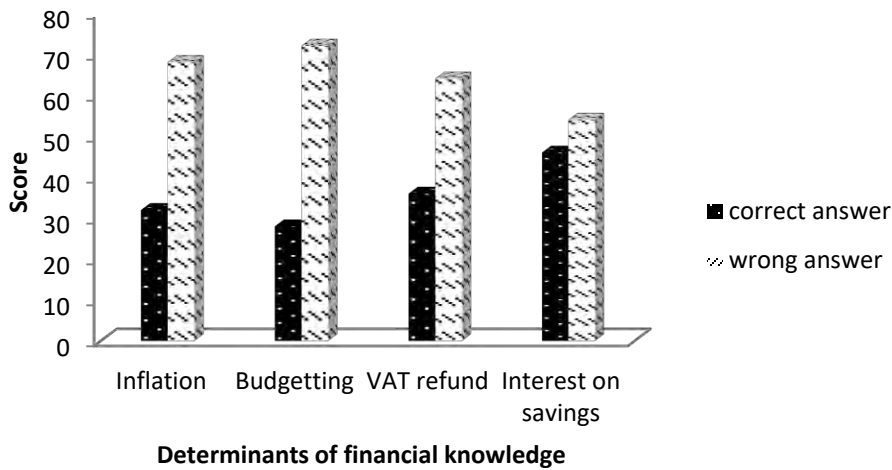
#### **4.3.3 Business Profitability Analysis**

Business owners were asked whether they consider the periodic analysis of their businesses' profitability in order to maximize profit and minimize costs. This according to Pearl and Eileen, (2014), is very crucial in determining the financial health of any business. About 74% of the respondents said it is very important. More than half of the respondents (51%) have the wrong behaviour towards this business procedure since they never or only once a year do the company's profitability analysis (Figure 4.3).



**Figure 4.3: Frequency of businesses' profitability analysis**

It could be seen from the results (Figure 4.4) that greater number of respondents lack financial knowledge in relation to inflation, interest compounding, budgeting and VAT. From the figure below, some business owners present a reasonably low knowledge about inflation, interest compounding VAT and budgeting. Pearl and Eileen (2014) found similar results in a study they conducted and posit that such situation or problem could only be solved through education.



**Figure 4.4: Determinants of financial knowledge****4.5 Factors Influencing Respondents' Level of Financial Knowledge**

Small and medium scale business owners' level of financial knowledge in their businesses was assumed to vary in terms of a number of factors such as their level of education, field of study, gender, age and years they have been in business.

The results from Table 4.6 show that respondents' level of education significantly influence their level of financial knowledge i.e. level of education ( $b = -0.345, p = 0.000$ ). As the level of respondent's education increases, there is the tendency that his or her level of financial knowledge also increases. This results appears to support the findings from a research conducted by Lusardi and Mitchell (2011) that people with lower educational attainment (e.g. lacking a high school degree) in the U.S. are less likely to answer questions correctly, and also more likely to say they don't know the answer.

**Table 4.6: Results of the regression analysis**

Independent variables	Unstandardized Coefficients		Standardized Coefficients	<i>t</i>	<i>P</i> - value
	<i>B</i>	Std. Error	Beta		
(Constant)	2.977	0.3		9.929	0
Level of education	-0.345	0.045	-0.867	-7.633	0.000**
Field of study	-0.041	0.035	-0.14	-1.149	0.256*
Gender	0.068	0.086	0.069	0.786	0.436*
Age	-0.008	0.056	-0.015	-0.146	0.885*
Years in business	0.002	0.078	0.003	0.025	0.980*

Dependent variable: Level of financial knowledge,  $R^2 = 0.639$ , Std. Error of Estimate: 0.314,  $F(5, 100) = 16.660, p = 0.000$ . NB: \*\* Significant at  $p = 0.05$ , \*Not significant at  $p = 0.05$

The statistical results of this study found one's field of study not significant ( $b = -0.041$ ,  $p = 0.256$ ) and therefore has no influence on one's level of financial knowledge. The result of this study is in disagreement with the findings of Chen and Volpe (2002) and Lusardi and Mitchell (2007) who found one's field of study a significant determinant in his/her financial knowledge.

The influence of gender on respondents' level of financial knowledge for this study, was found to be not significant ( $b = 0.068$ ,  $p = 0.436$ ), and therefore not a determining factor in this study. The findings of this study is consistent with similar studies conducted by Couto (2013) and Banco de Portugal (2010) which found gender not significant determinant of financial literacy. However, positive trends in gender of respondents exist in a number of studies (Lusardi and Mitchell, 2011; InterMedia, 2010).

Age ( $b = -0.008$ ,  $p = 0.885$ ) was found not to have any significant influence on respondents level of financial knowledge. But a national survey conducted by InterMedia (2010) in Kenya, found youths (15-30) to be financially knowledgeable and have high access to financial information. Atkinson and Messy (2012) also posit that people between the ages of 30 - 60 exhibit a higher level of financial literacy.

The number of years one has stayed in business ( $b = 0.002$ ,  $p = 0.980$ ) were found not to have any significant influence on respondents level of financial knowledge.

## CHAPTER FIVE

### SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

#### 5.0 Introduction

As a concluding chapter to this research work, this section of the report provides the summary of the findings from the study, conclusions drawn from the analysis of data on business owners collected within the KMA of the Ashanti Region. Also, it suggests some recommendations with respect to the major findings on the financial literacy level, the challenges and the way forward to improving the financial literacy of business owners in the metropolis and the country in general in order to ensure proper and efficient financial management practices.

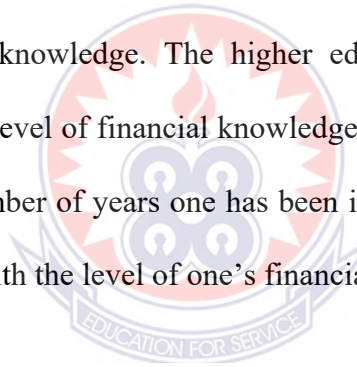
#### 5.1 Summary of Findings

Chapter one of this study looked at the introduction to the study, statement of the problem, objectives, and research questions. The study is also justified and the scope and limitations are also looked at. Chapter two reviewed the theoretical importance of financial literacy and attempted an analysis of some of the several issues related to it and are relevant to this study. The third chapter presented the methods adopted to obtain the necessary data required for achieving the set objectives of the study. Thus a more detailed submission is made on the processes involved in obtaining the data for this study. Chapter four systematically presented the results and also served as the explanatory tool to the individual characteristics explored in this study.

The following findings could be made from the results presented in the above chapter on the 100 small and medium scale business owners surveyed for this study within the KMA.

Respondents within the study area lack proper financial behaviour and attitudes. Greater number of business owners sampled do not have business plans for their businesses and therefore, it can be said that such businesses lack focus and direction. Owners do not prepare cash flows and also do not perform business profitability analysis which could reveal to them the success or otherwise of their businesses.

The education level of respondents sampled for this study was found to be a driver of one's level of financial knowledge. The higher education level one attains directly correlates with his or her level of financial knowledge. Other factors such as age, gender, field of study and the number of years one has been in business, were found not to have any positive correlation with the level of one's financial knowledge.



## **5.2 Conclusions**

In conclusion, the financial literacy level of respondents within the study area could be said to be inadequate. This inadequate financial knowledge in the long run has far reaching consequences on the businesses of these respondents as it is observed that, business owners' knowledge on budgeting, VAT, inflation and interest on savings are not good and encouraging which in the long term will limit respondents' financial decisions making and planning.

Financial illiteracy and its resultant consequences on business owners could potentially hinder their productivity since their performance can be seriously affected as they will



always have financial worries and challenges to think about. It could be concluded that higher financial literacy level of small business owners contribute towards better performance of their firms.

### **5.3 Recommendations**

The study recommends that workshops should be organised by the Association of Ghana Industries (AGI), the parent body of these small and medium scale businesses on proper financial management so as to ensure prudent and efficient financial management practices among business owners.

Secondly, business owners and potential business owners should be educated by the AGI on some of the basic financial issues and best practices in the course of their studies or training irrespective of their field of study, so as to develop a nation of financially literate business people.

Finally, the researcher recommends that, further studies should be conducted to investigate financial literacy level of large scale businesses (companies) in the country to identify, understand and to put in place measures to curb bankruptcy and bailouts associated with some of these companies.

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## APPENDICES

### Appendix A

#### UNIVERSITY OF EDUCATION, WINNEBA COLLEGE OF TECHNOLOGY EDUCATION, KUMASI

#### Questionnaire

##### Introduction

This research is being conducted by an MBA student of University of Education, Winneba, Kumasi campus. The purpose is to assess the level of financial literacy among small and medium scale businesses. I assure you that your responses to the questions during the in-person interview will be completely confidential.

##### SECTION A: Respondents' Demographic Characteristics

1. What is the highest level of education you have obtained?

A.  No schooling B.  Primary education (1-15) C.  Higher secondary education (16-19)

D.  Training certificate E.  Graduate degree F.  Post graduate G.  Don't wish to disclose

2. What was your field of study at the highest level of your education?

A.  Business B.  Economics C.  Humanities (arts, social sciences, language etc.) D.  Sciences E.  Agriculture F. Others, specify.....

3. What is your sex? (Don't ask)

A.  Male B.  Female

4. What is your age?

A.  20-29 B.  30-39 C.  40-49 D.  50 and above

5. How many years have you been in this business?

- A.  Less than 5 years                      B.  Five to less than 10 years                      C.   
Ten to less than 15 years    D.  Fifteen to less than 20 years                      E.  Twenty years  
or more                      F.  Don't want to disclose

6. Are you responsible for the financial management of your business?

- A.  Yes                      B.  No

7. If no to question 6, to whom or to what is trusted the financial responsibility of your business?

- A.  Accountant                      B.  Financial Department                      C.  Outsourcing  
D.  Other (Specify)

#### SECTION B: Financial Knowledge

8. Imagine that you have to wait a year to receive a VAT refund of GHC 100. In one year's time will you be able to buy/spend:

- A.  More    B.  The same amount    C.  Less than you could buy today  
D.  Don't know

9. Suppose you put GHC 100 into a savings account with a guaranteed interest rate of 2% per year. You don't make any further payments into this account and you don't withdraw any money. How much would be in the account at the end of the first year, once the interest payment is made?

- A.  Less than GHC 100    B.  Exactly GHC 100                      C.  A little over GHC 100  
D.  It is impossible to tell from the information given

10. High inflation means that the cost of living is increasing rapidly.

- A.  True                      B.  False                      C.  Don't know

11. Maame Akua has two sons. Her husband and two sons are earning members of the household and contribute towards household income. However Maame Akua does not know what is the household's total income and expenditure. How do you think Maame Akua can track her income and expenditure?

- A.  Open a savings account  
B.  Start making a household budget  
C.  Buy life insurance for her husband and sons  
D.  Don't know

SECTION C: Financial Behaviour and Financial Attitudes

12. On a scale of 1 to 5, where 1 is nothing important and 5 very much important, what is the preparation of a business plan at the beginning of a business to you?

- 1 Nothing important
- 2 Not too important
- 3 Important
- 4 Very important
- 5 Very much important

13. Do you have business plan for your business?

- A.  Yes                      B.  No

14. Do you know how to make a cash flow forecast?

- A.  Yes                      B.  No

15. If yes to question 13, how often do you prepare cash flow forecast?

- A.  Never    B.  Once a year    C.  Every six months    D.  Every single month

16. Do you consider important the periodic analysis of your business' profitability in order to minimize costs and maximize profits?

- A.  Yes                      B.  No

17. How often do you do the business profitability analysis?

- A.  Never    B.  Once a year    C.  At least every six months    D.  At least every month.

18. Please, any further observations or comments you would want to make or would want me to consider?

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*THANK YOU VERY MUCH FOR PARTICIPATING IN THIS SURVEY.*