

Factors affecting financial literacy of small and medium enterprises in Kurunegala district, Sri Lanka

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Abstract

Financial literacy is an important instrument for the success of small and medium enterprises (SMEs) as it leads to understand and evaluate the information needed to make day-to-day financial decisions. Poor financial decisions may have harmful impacts on financial and economic stability of the SMEs. Financial literacy encourages SMEs' owners to make intelligent choices while gaining the competitive advantage in the market. COVID-19 pandemic highlighted the significance of the existence of SMEs as most of the large-scale companies were withheld whereas SMEs were continuously performing their business activities. Nevertheless, many studies have proved that the level of financial literacy has a significant impact on performance of SMEs, very few studies have investigated the factors affecting to the financial literacy of SMEs. Thus, the purpose of this study is to investigate the factors effecting the financial literacy of SMEs in Kurunegala District in Sri Lanka. Employing the convenience sampling technique, a questionnaire survey was conducted for 63 SMEs respondents registered under the divisional secretary in Kurunegala District. The results of regression analysis and ANOVA tests show that demographic factors and usage of financial products and institutional factors of SMEs have a significant positive impact on financial literacy of SMEs. Thus, the findings will give managerial implications for SMEs to identify through which factors they could improve the financial literacy. Furthermore, the findings shed a light to financial institutions, government, and other bodies to identify the ways and means for improving financial literacy of SMEs since it assists not only the SMEs but also for the overall economic success.

Keywords: *Demographics, financial literacy, institutional factors, usage of financial products factors*