

# Assessment of Financial Capability of Small and Medium Enterprises in Akure, Nigeria

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## Abstract

Consequent upon the growing finance dilemma in SMEs, financial capability is receiving an increasing interest among policy makers worldwide because of its propensity to enhance SMEs' creditworthiness. The study assesses the level of financial capabilities of SMEs in terms of these core elements; financial attitude, financial behaviour, financial literacy, and financial skills; and provide a survey instrument that would measure financial capability in Nigeria. Survey instrument in the form of structured questionnaires was employed. The study is descriptive in nature, and analyzed through the quantitative approach. Findings shows that although the overall level of financial capability of SMEs in Nigeria is generally low, the level of financial attitude and financial behaviour is high among SMEs. However, with regard to financial literacy and financial skills, the level is low. The result also shows that SMEs understanding of the core elements of financial capability remains low. This is evident in their responses to the survey instrument- the questionnaire. Towards enhancing SMEs' financial capability and ability to take informed financial decisions, the study recommends financial education to strength financial literacy and financial skill of SMEs. The study equally calls on Government and policymakers to declare a financial capability emergency among SMEs.

## Keywords

Assessment, financial attitude, financial behaviour, financial capability, financial literacy, financial skills, small and medium enterprises.

## INTRODUCTION

Financial capability has become a priority for policy makers world-wide seeking to promote financial inclusion, financial stability and effective usage of financial services that fit its need. Firms with sound financial decisions making ability, effective interaction with financial services providers as well as the understanding and usage of financial services coupled with enterprises ability to manage risks are more likely to achieve their goals and perform better (World Bank Group, 2018; IFC, 2020).[3] [17]

One of the factors associated with the inability to manage finances and attract additional finances is the low financial capability. According to Ojeka and Mukoro (2011) [18], though SMEs have been known to contribute tremendously to employment generation, creating a better standard of living, as well as contributing to the gross domestic products (GDP), however, the dearth of financial capability has lowered the rate of SMEs performance to the Nigeria economy.

While the literature is replete with studies on the relevance of SMEs to Nigeria economy as well as the need to scale up SMEs' financial needs, studies on financial capability of SMEs as well as data for measuring financial capability concepts among SMEs owners and decision makers are quite scanty. Where it exists, they are limited to financial literacy. However, financial capability extends beyond the knowledge of financial concepts to include a combination of behaviours, skills and attitudes that enables the effective and responsible financial decision making. Addressing this gap in measuring financial capability at the SMEs level is crucial to strengthening SMEs' creditworthiness, promote prudent

accounting and enhance performance. The need to bridge this intellectual gap informs this study. The overall objective of this study is to assess the level of financial capabilities of SMEs and provide a survey instrument that would measure financial capability in Nigeria.

## REVIEW OF LITERATURE

### Conceptual Literature

#### *Small and Medium Enterprises (SMEs)*

The definition of SMEs is amorphous as it varies from country to country depending on factors such as number of employees, the value of fixed assets, capital employed, and production capacity, among others. In Nigeria, based on nuanced assessment of existing national perspectives, micro, small and medium enterprises are defined based on three classifications such as Micro enterprises with staff employment less than 10 and assets value (excluding land and building) less than N5 million. Small enterprises with staff employment between 10 and 49, while assets value (excluding land and building) ranges between N5 million and N50 million. The third classification is Medium enterprises with staff employment ranging between 50 and 199 with assets value (excluding land and building) ranging between N50 and N500 million (SMEDAN, 2015). [26]

### Financial Capability

Financial Capability goes beyond the knowledge of financial concepts to include a combination of behaviors, skills, and attitudes that enable effective and responsible financial decision making (Holzmann, 2013 [30]; World Bank Group, 2018 [16]). Financial capability refers to

people’s ability to manage and take control of their finances (Taylor, 2011).

**MEASUREMENT OF FINANCIAL CAPABILITY**

**Financial Attitude**

Financial attitude can be defined as the application of financial principles to enhance financial decisions. It is a personal inclination towards the financial matters. It is an ability to plan ahead and maintain a savings account (Rajna *et al*, 2011 [15]). Improved attitudes boost financial capability (Batty *et al.*, 2015) [23]. Attitude precedes individuals’ behaviour (Ajzen 1991; Yong *et al.*, 2018 [25]). According to Nanu (2020) [13], the financial attitude has an effect on determining one’s financial behaviour.

**Financial Behaviour**

Zahroh (2014) [1] reveals that behaviour is the way in which a person acts. Nofsinger (2005) defines financial behavior as how humans actually behave in financial determination (financial setting) to influence financial decisions. Financial behaviour is a very important factor that shapes financial capability (Potocki & Cierpia-Wolan, 2019 [6]; Xiao, Chen, *et al.*, 2014).

**Financial Literacy**

According to Lusadi and Mitchell (2007) [12] financial literacy can be interpreted as financial knowledge, which has a goal to achieve prosperity. Financial literacy or knowledge emphasizes the importance of applying knowledge and skill in finance to take some financial decisions. It covers the combination of investors’ [4] understanding of financial products and concepts and their ability and confidence to appreciate financial risks and actions to improve their financial well- being (Atkinson & Kempson, 2008) [2].

**Financial Skills**

In addition to a knowledge component, financial capability has an action component – the skills to put financial knowledge to use (Atkinson, 2007) [11]. Financial skill reflects an individual’s ability to find, process, and act on financial information (Burea, 2018). It is the ability to apply financial knowledge for an improved financial decision making and performance.

**Empirical Literature**

Roy and Jains (2018) [9] and Singh and Kumar (2017) [29] in a separate studies found that financial literacy among women is very low and their level of financial knowledge are not satisfactory due to lack of clarity between insurance, saving and investment products. Ramanaiah and Gowri (2011) [8] suggested that the lack of financial literacy and less knowledge about investments avenues have led to poor management of finance in MSME. Ibrahim and Alqaydi (2013) [20] concluded that education can improve personal financial attitude, thereby reducing dependence on credit cards. Lusardi and Mitchell (2007), in a study concluded that women with lower level of financial literacy are less likely to

take retirement plans and they are more dependent on their family and friends for their saving and investment planning.

**METHODOLOGY**

Survey instrument in the form of structured questionnaires was employed. The study is descriptive in nature, and analyzed through the quantitative approach. The questionnaire was organized in three sections. Section I captures demographic information and educational background of respondents. In section II, the survey instrument considers the respondents’ understanding of the core elements of financial capability which include (i) financial behaviour, (ii) financial literacy/ knowledge, (iii) financial attitude and (iv) financial skills while section III accesses the financial capability of the respondents. The questionnaire was in the form of YES/NO. Also, a five-point Likert Scale ranging from Very High (5) to Undecided (1) was used to address the objective of the study. The descriptive statistical analysis was conducted using the statistical package for Social Sciences (SPSS) software. Data were analysed using descriptive statistics (frequency distribution, percentages and mean).

**Sample Size and Sampling Technique**

The population from which the sample size was drawn consists of 600 registered SMEs in the manufacturing and service sectors in the study area (Ministry of Commerce and Trade, Akure, Ondo State, 2016) [31]. Taro Yamane (1968) formula was used to derive the sample size for a total population of 600 SMEs.

The Yamane formula is of the form:

$$n = \frac{N}{1 + N(e)^2}$$

Where; n = Sample size  
e = the significance level  
N= total population size

$$n = \frac{600}{1 + 600(0.05)^2}$$

n = 240

The sample size for the study therefore was 240. Simple random technique was used to distribute the questionnaire among SMEs. Out of 240 sets of questionnaire distributed, 177 were retrieved, representing 74% response rate.

**RESULTS AND DISCUSSION**

**Table 1:** Table showing the Distribution of Questionnaires

Items	Freq.	%
Questionnaire distributed	240	100
Questionnaire retrieved	177	74
Not retrieved	63	26

Source: Researcher’s Field Survey, 2021

Table 1 reveals that a total of 240 sets of questionnaire were distributed out which 177 were retrieved from the respondents, representing a response rate of 74%.

**Table 2:** Educational Level of Respondents

Educational Level	Freq.	%
Elementary/Secondary	28	16
NCE/OND	32	18
HND/B.Sc./B. A	111	63
MBA/M.Sc./Ph. D	6	3
<b>Total</b>	<b>177</b>	<b>100</b>

Source: Researcher’s Field Survey, 2021

Table 2 Shows the educational level of respondents. The survey shows that more than 80% of the respondents had access to tertiary education while 16% had completed elementary or higher schools. This is a good one for the study. Ibrahim and Alqaydi (2013) [20] concluded that education can improve personal financial attitude, thereby reducing dependence on credit cards.

**Table 3:** Assessment of Financial Attitude of Respondents

Financial Attitude	Yes	No
Are you analytical in financial decisions?	61 (34%)	116 (66%)
Are you disciplined in your spending habit?	101(57%)	76(43%)
Do you have good attitude towards saving?	123(69%)	54(31%)
Do you possess good attitude towards investment?	125(71%)	52(29%)
Do you have good attitude towards fund management?	72(41%)	105(59%)
Do you possess personal inclination towards financial decisions?	78(44%)	99(56%)
Do you have the ability to plan ahead?	98(55%)	79(45%)

Source: Researcher’s Field Survey, 2021

Table 3 assesses certain financial attitudes and personal traits that enhance financial capability of respondents. SMEs rank highest in “good attitude towards investment” 125(71%), followed by “good attitude towards saving” 123(69%), whereas they are above average in the culture of “disciplined spending habit” and “ability to plan ahead” which reveal 101(57%) and 98(55%) respectively. The survey also reveals attitude that detract from financial capability. They have “poor analytical skills in financial decisions” 61(34%), “poor attitudes towards fund management 71(41%) and “weak personal inclination

towards financial decisions.” On the average, finding reveals that the financial attitude of business owners is a little above average 94(53%). Related literature supports that attitudes boost financial capability (Shim et al, 2013; Batty et al., 2015) [22]. In summary, the output of this survey demonstrates measures of financial attitude that are key to SMEs financial decisions and ultimately, financial capability.

**Table 4:** Assessment of financial behaviour of the respondents

Financial Behaviour	Yes	No
Do you often read the terms and conditions on financial products/services?	118(67%)	59(33%)
Do you save for future use?	129(73%)	48(27%)
Do you understand cash flow management?	56(32%)	121(68%)
Do you practice accounting and budgeting?	67(38%)	110(62%)
Do you have the ability to exploit business opportunities?	138(78%)	39(22%)
Do you have the ability to manage finances?	114(64%)	63(36%)
Do you keep proper record of the-day-to day financial activities?	116 (66%)	61 (34%)
Do you plan for retirement and emergencies?	138(78%)	39(22%)

Source: Researcher’s Field Survey, 2021

In accessing the respondents’ financial behaviour, a measure of financial capability, Table 4 reveals that survey respondents show relative strength in “reading the terms and conditions on financial products/services”118(67%); “ability to save for future use” 129 (73%); “ability to exploit business opportunities” 138(78%); ability to manage finances” 114(64%); “ability to keep proper record of day-to-day financial activities” 116(66%), and “ability to plan for retirement and emergencies.” As shown above, SMEs score highest in their “ability to exploit business opportunities” and “ability to plan for retirement and emergencies” as both recorded 138(78%). Meanwhile, the survey shows that majority of the respondents are weak in “cash flow management,” and “accounting and budgeting” as only 56(32%) and 67(38%) of them show their strength in these areas respectively. In general, the findings reveal that almost two-thirds (62%) of the respondents indicate their understanding of financial behaviour needed to enhance their financial capacity. According to literature, financial behaviour is a very important factor that shapes financial capability (Potocki & Cierpia-Wolan, [6] 2019; Xiao, Chen, et al., 2014 [7]). Financial capability can be measured through financial behaviours (Mitchell & Lusardi, 2011)[21].

**Table 5:** Assessment of Financial Literacy/Knowledge

Financial Literacy/Knowledge	Yes	No
Are you knowledgeable about the financial products/services available to you?	102(58%)	75(42%)
Are you knowledgeable about the cost associated with financial services?	104(59%)	73 (41%)
Can you easily understand simple financial terms?	65(37%)	112(63%)
Can you easily understand the suitability of financial products/services?	58(33%)	119(67%)
Do you have knowledge & skill in finance needed to take financial and investment decisions?	61 (34%)	116 (66%)

Source: Researcher’s Field Survey, 2021

Table 5 assess the financial literacy of the enterprises capable of enhancing their financial capability. The result shows that respondents demonstrate strength in “being knowledgeable about available financial products/services” 102(58%), “being knowledgeable about the cost associated with financial services” 104(59%). On the other hand, the survey identifies the following areas of financial capability weakness as measured by financial literacy: “ability to understand simple financial terms” 65(37%), “ability to understand the suitability of financial products/services” 58(33%), and “knowledge and skill in finance needed to take financial and investment decisions” 61(34%). On the average, the finding reveals that the financial literacy level of the respondents is below average 78(44%). Previous studies found that financial literacy among women is very low and their level of financial knowledge are not satisfactory (Singh & Kumar, 2017 [29]; Roy & Jains 2018 [9]). Ramanaih and Gowri (2011) suggested that the lack of financial literacy and

less knowledge about investments avenues have led to poor management of finance in SMEs. The implication however is that in Nigeria, financial literacy is low and SMEs’ ability to understand, assess and act on financial information and take informed financial and investment decision is weak.

**Table 6:** Assessment of financial skills of the respondents

Financial Skills	Yes	No
Do you possess the ability to access financial risk?	68(38%)	109(62%)
Do you have the ability to prepare the firms budget?	61(34%)	116(66%)
Do you possess the ability to decide which source of finance to choose?	92 (52%)	85(48%)
Do you have the ability to evaluate different financial products available?	55(31%)	122(69%)
Do you possess the skill to put financial knowledge to use?	72(41%)	105(59%)
Do you have the ability act on financial information?	76(43%)	101(57%)

Source: Researcher’s Field Survey, 2021

Table 6 assesses the financial skills’ of respondents. The result reveals that SMEs score low on the scale in “ability to access financial risk” 68(38%), “ability to prepare firms’ budget” 61(34%), “ability to evaluate different financial products available” 61(34%), skill and ability to put financial knowledge to use 72(41%), and “ability to act on financial information” 76(43%). Meanwhile, respondents show their strength in their ability to choose which source of finance to use, though slightly above average 92 (52%). On the average, finding reveals that the financial skill competency of the respondents is low at 71(40%). Drexler Fischer & Schoar (2014) [10] conclude that enterprises often lack the financial literacy and skills required for complex financial decisions and financial practices.

**Table 7:** Assessment of the Financial Capability SMEs

Items	Very High		High		Low		Very Low		Undecided		Mean
	Freq	%	Freq	%	Freq	%	Freq	%	Freq	%	
Financial Attitude	32	18.1	50	28.2	41	23.2	38	21.5	16	9.0	3.3
Financial Behaviour	22	12.4	61	34.5	48	27.1	35	19.8	11	6.2	3.2
Financial Literacy	23	13.0	25	14.0	49	27.7	54	30.5	26	14.7	2.8
Financial Skills	3	1.7	5	2.8	63	35.6	66	37.3	40	22.6	2.2

Source: Researcher’s Field Survey, 2021



Table 7 assesses the financial capability of the respondents taking into consideration all the components thereof. Judging by the mean scores, the result further reveals that SMEs demonstrate relative strength in financial attitude and financial behaviour as both fall within the “High” region. This is not unexpected as previous findings found that financial attitude precedes and determines financial behaviour (Ajzen 1991; Madern & Schors 2012[14]; Yong et al., 2018 [25]; Nanu, 2020 [13]). On the other hand, the result further reveals the weakness of the enterprises in financial literacy as it falls within the “Low” region of the scale. This also is consistent with previous study that shows that SMEs’ lack of financial literacy and knowledge about investments (Ramanaiah & Gowri, 2011). Similarly, the result shows that SMEs financial skills is low. Previous finding shows that enterprises lack the financial literacy and skills required for complex financial decisions and financial practices (Drexler Fischer & Schoar, 2014 [10]). Judging by the mean average of 2.9, the result generally reveals that the financial capability of the respondents is low. This is also consistent with previous finding showing that the dearth of financial capability has lowered the rate of SMEs performance to the Nigeria economy (Ojeka & Mukoro, 2011) [5]. The implication, however, is that in Nigeria, SMEs’ financial capability as well as the ability to manage and take control of their finances and make informed financial decision is still low.

### CONCLUSION

The main objective of this study is to assess the level of financial capability of SMEs and provide a survey instrument that would measure financial capability in Akure, Nigeria. In this regard, the study assesses the level of financial capability of SMEs in terms of these core elements: financial attitude, financial behaviour, financial literacy, and financial skills. Based on the findings, the study concludes that although the overall level of financial capability of SMEs in Nigeria is generally low, the level of financial attitude and financial behaviour is high among study respondents. However, with regard to financial literacy and financial skills, SMEs score low. In addition, the result reveals that SMEs’ understanding of the core elements of financial capability remains low. This is evident in their responses to the survey instrument- the questionnaire.

### RECOMMENDATIONS

The study recommends the following among others.

- i. Towards enhancing SMEs’ financial literacy, the study recommends financial education on financial products, knowledge and skill needed to take financial and investment decisions, and understanding of simple financial terms.
- ii. With regards to financial skills, the study equally recommends financial education on SMEs’ ability to access financial risk, prepare firms’ budget, evaluate different financial products available, and the skill to

put financial knowledge to use.

- iii. As a result of the low financial capability of SMEs, the Government and policymakers should declare a financial capability emergency among SMEs as a number of them could not understand financial capability questions.

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