

Financial Literacy and Economic Sustainability of Rural Retail SMEs in Zimbabwe: Evidence from Manicaland Province

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Abstract: The study introduced the rampant lack of financial literacy betraying economic sustainability of rural retail SMEs in Zimbabwe. Notwithstanding the notable attention and recognition of the role played by SMEs towards poverty alleviation and the overall growth of both developed as well as developing economies, Zimbabwe still records a worrying number of unregistered SMEs, in excess of 80% of total SMEs, who maintain incomplete to no financial records. The study sought to assess the association between financial literacy (as represented by its dimensions of financial behaviour, financial knowledge and financial attitude), as the independent variable, and economic sustainability, as represented by profitability as the dependent variable. Making use of both quantitative and qualitative data collected through questionnaires from 100 purposively selected rural retail SMEs in Manicaland Province, the study established that there is no relationship between financial knowledge of SME owners or managers and success of their business endeavours. However, the study established the existence of a relationship between financial attitude and financial behaviour and business profitability. The study concluded that financial literacy as assessed through financial attitude and financial behaviour has a significant contribution towards influencing the quality of business decisions and can contribute towards economic sustainability of rural retail SMEs in Zimbabwe. The study will inform policy making agencies in their endeavour to promote sustainable SMEs to focus on enhancement of financial literacy of rural SMEs as they significantly contribute towards achievement of policy objectives around employment creation, poverty eradication and economic growth. The scope of the study was however limited to rural retail SMEs, hence, widening the geographical scope to include SMEs in urban setups will enhance insight into this relationship, and furtherance of policy endeavours of promoting economically sustainable SMEs in Zimbabwe.

Keywords: Financial literacy, Economic sustainability, SMEs

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I. Introduction

Several governments the world over have shifted attention towards recognising SMEs as economic players who contribute significantly towards poverty alleviation and economic growth (Fatoki, 2014; Eniola & Entebang, 2017; Jachi & Muchongwe, 2019), and Zimbabwe is not lagging behind in the same regards. Small businesses are usually micro-managed. This entails that, the entrepreneur's financial literacy play a central role in influencing the quality of their business decisions, whose significance can be demonstrated through economic sustainability of their respective entities (Cucinelli, Trivellato, & Zenga, 2019). Financial literacy is critical in influencing SMEs' viability. The fact that someone starts a business enterprise in Zimbabwe does not guarantee and is not directly related to their possession of business and financial knowledge and skills (OECD, 2013; Bongini & Zia, 2018; Jachi & Muchongwe, 2019). A handful of prior studies concentrating on financial literacy have been conducted in the context of developed economies relative to developing economies (Fatoki & Oni, 2014; Nkomazana, Sibanda, & Duve, 2015), such as Zimbabwe. As such, an enquiry into the relationship between financial literacy and economic sustainability of entities within sectors which developing economies hinge on is warranted.

The Zimbabwean economy depend largely on the SME subsector, 85% of whom are informal, financially excluded and maintains incomplete financial records (Madziva & Mapepet, 2017), if any. This has an effect of limiting their access to cheaper sources of finance (RBZ, 2016) and crippling their ability to assess business trajectory as they cannot determine whether their endeavours are economically sustainable or not. Literature notes the unavailability of a universally accepted definition of financial literacy (Schmeiser & Seligman, 2013). However, there is universal consensus on the benefits associated with financial literacy, at both the individual level (Lusardi & Mitchell, 2011) and economic level (Adomako, Danso, & Damoah, 2015). At individual level, financial literacy enhances financial inclusion and enhances the quality of daily operational decisions (Wachira & Kihui, 2012; Japelli & Padula, 2013; Adomako, Danso, & Damoah, 2015), and at economic level, financial literacy plays the role of enhancing discipline within the financial services sector and

efficient allocation of resources (Wachira & Kihui, 2012). Studies on financial literacy and business outcomes of SMEs report that a considerable number of entities end up being involved in costly financial decisions leading to heavy indebtedness as they are victims of expensive sources of finance (Mckenzie & Woodruff, 2014; Cumurovic & Hyll, 2019), threatening their economic sustainability.

Zimbabwe is a signatory to the 2030 Sustainable Development Goals (SDGs), and she has a vision to achieve an upper-middle income economy by 2030. Financial inclusion has been noted as a critical enabler to the attainment of these strategic policy goals. Financial literacy plays an important role in promoting financial inclusion among marginalised groups such as rural SMEs, whose lack of financial literacy is demeaning the government's financial inclusion efforts as well articulated in the National Financial Inclusion Strategy (NFIS) (2016-2020). Some of the objectives of the NFIS has been identified as employment creation, mobilisation of financial resources from informal sectors, facilitation and smoothening of consumption by the low-income households, enhancement of financial deepening and overly increasing the pace of economic growth and development. Financial literacy enhancement through entrepreneur training, capacity building and enhancement of record keeping have been noted as some of the strategies towards the attainment of the NFIS. A number of success stories towards the attainment of the NFIS reflects continued stakeholder support through investment in financial literacy programs focusing on various aspects and skills including financial planning, budgeting, savings and debt management skills. This study is aimed at exploring the role of financial literacy on economic sustainability of rural retail SMEs in Zimbabwe.

II. Statement of the problem

Financial literacy has been noted as a key enabler towards economic growth and attainment of broader local and global policy objectives, such as the Government of Zimbabwe's vision of becoming an upper-middle economy by 2030 and the global vision 2030 Sustainable Development Goals (SDGs). The government of Zimbabwe through various government departments such as the Ministry of Youth, Sport, Arts and Recreation, the Ministry of Women Affairs, Community, Small and Medium Enterprises Development and the Ministry of Finance and Economic Development has implemented several initiatives to enhance economic development through empowerment and socio-economic inclusion of formally marginalised groups such as youth and women entrepreneurs. These demographic classes of economic participants however, play a critical role in promoting and supporting the government's broader policy objectives. Unfortunately, notwithstanding efforts to support their endeavours, no much attention has been focused towards assessing factors that are possibly hindering realisation of their full potential. Therefore, this study sought to contribute towards filling that gap and add to existing literature through an investigation into the role of financial literacy on economic sustainability of rural retail SMEs in Zimbabwe.

III. Objectives of the study

The main objective of this study was to examine the effects of financial literacy on economic sustainability of rural retail SMEs in Zimbabwe.

The specific objectives were to:

- assess the relationship between financial knowledge and profitability of rural retail SMEs in Zimbabwe.
- examine the effects of financial attitude on profitability of rural retail SMEs in Zimbabwe.
- explore the effects of financial behaviour on profitability of rural retail SMEs in Zimbabwe.

IV. Literature Review And Development Of Hypothesis

4.1 Financial literacy and profitability

Financial literacy has in several cases been perceived as meaning the same as financial knowledge, yet according to Potrich et al., (2015); Esiebugie et al., (2018); and Akhtar & Liu, (2018) these terms carry a different meaning. Financial knowledge which is alternatively referred to as financial education, is a subset of financial literacy. Financial literacy according to this study, comprises of financial knowledge, financial attitude and financial awareness. It involves an understanding of fundamental financial concepts, financial risks, and commercial products that individuals apply in the process of financial decision making, informing their judgements (Kimunduu, Erick, & Shisia, 2016; Mabula & Ping, 2018). SME owners and management are faced with the burden of making sound financial decisions, in a bid to ensure sustainability of their endeavours, making financial literacy a pillar towards achievement of their causes (Adomako & Danso, 2014). According to Adomako and Danso (2014) and Grable and Joo (2000), the lack of financial literacy has a negative impact on performance of SMEs. However, Huston (2010) and Estelami (2014) argued in contrary, pointing out that financial literacy has no direct relationship with the quality of financial decisions, arguing that financial literacy does not guarantee financial expertise.

4.2 Financial knowledge

Hakim et al., (2017) acknowledges the existence of a thin line between financial literacy and financial knowledge(Hakim, Oktavianti, & Gunarta, 2017), arguing that financial knowledge is the ability to comprehend basic financial expressions and notions. Financial knowledge helps companies in resolving financial issues(Lusardi & Mitchell, 2011; Potrich, Kelmara, & Wesley, 2016). It helps businesses to avoid detrimental consequences which results from lack of such knowledge, the likes of liquidity problems and unplanned spending. Empirical literature reveals that knowledge of business finance can lead to anawareness of the idea of the time value of money, understanding of the fundamental accounting concepts, idea of risk and return as well as the best way of borrowing, investment, saving and the best plan of retirement(Lusardi & Olivia, 2011a; Eniola & Entebang, 2017). Therefore, individuals with financial knowledge are assumed to be better achievers with a higher chance of succeeding in their financial decisions(Kimunduu, Erick, & Shisia, 2016; Chepkemioi, Patrick, & Njoroge.C, 2017).Hence, thefirst hypothesis (H1)can be stated as:

H₀: The financial knowledge of the owner/manager is not related to profitability of the ruralretail business; versus

H₁: The financial knowledge of the owner/manager is related to profitability of the rural retail business

4.3 Financial attitude

Thabet, Ali andKantakji (2019) define financial attitude as the exercise of financial fundamentals to generate and uphold the firm's value through determined judgements and appropriate financial controls. Financial attitude is believed to possess a greater bearing upon the management of finances. Financial attitude can be viewed as a psychological temperament when it comes to concurring and disputing with certain financial management actions(Abiiodun, 2016). Flourishing enterprises are associated with owner/managers whose traits are greatly linked to a positive financial attitude. MacDonald (2010) and Latifet al. (2011) associates risk-taking behaviour with a positive financial attitude. Prior studies also associates people with a higher level of financial attitude with better forecasting skills and a positive attitude towards savings(Khemili & Belloumi, 2018; Akhtar & Liu, 2018). Financial attitude is closely linked to financial knowledge because one's level of financial knowledge has a greater impact towards the financial attitude displayed by that individual(Abiiodun, 2016; Firli, 2017).A good financial attitude can lead to reduction in the cost structure of the business and an upward movement in the revenue structure. As such, the second hypothesis (H2)can be stated as:

H₀: Financial attitude of the owner/manager is not related to the profitability of the rural retail business; versus

H₁: Financial attitude of the owner/manager is related to the profitability of the rural retail business

4.4 Financial behaviour

Financial behaviour is closely related to decision making. Itcan be assessed through one's actions regarding financial savings, investment and retirement plans. Timeous settlement of dues, possession of a bank account, borrowing formally at low cost, and making use of formal savings options are pointed as some evidence of proper and sound financial behaviours among SMEs(Thabet, Ali, & Kantakji, 2019). A study by Okoli (2011), which examined how record keeping behaviour impact profitability of 168 small scale enterprises in Nigeria concluded that,small-scale enterprises are failing due to the single entry and incomplete recording system they prefer.The other resting point was that profitability and financial literacy are in a complementary relationship, meaning that profitability is difficult to achieve in totality without financial literacy(Okoli, 2011).A closely related study was conducted by Maseko andManyani (2011)using a sample of one hundred small scale enterprises in Bindura, Zimbabwe and they reached the same conclusion that lack of financial knowledge makes the owner/manager not to keep proper accounting records and obviously all other financial management skills will be lacking.Hence, the third (H3) hypothesis can be stated as:

H₀: Financial behaviour of the owner/manager is not related to the profitability of the rural retail business; versus

H₁: Financial behaviour of the owner/manager is related to the profitability of the rural retail business.

V. Research Methods

Both qualitative and quantitative data was collected for the purpose of the study, using both desk research and semi-structured questionnaires. The main data source for this study was however, primary data collected from rural retail SMEs in Zimbabwe. The research applied a homogeneous purposive sampling technique on selection of SME participants and adopted the questionnaire used to a larger extent byPotrich, et al. (2015) and Thabet, et al. (2019), as modified.

Conceptual framework

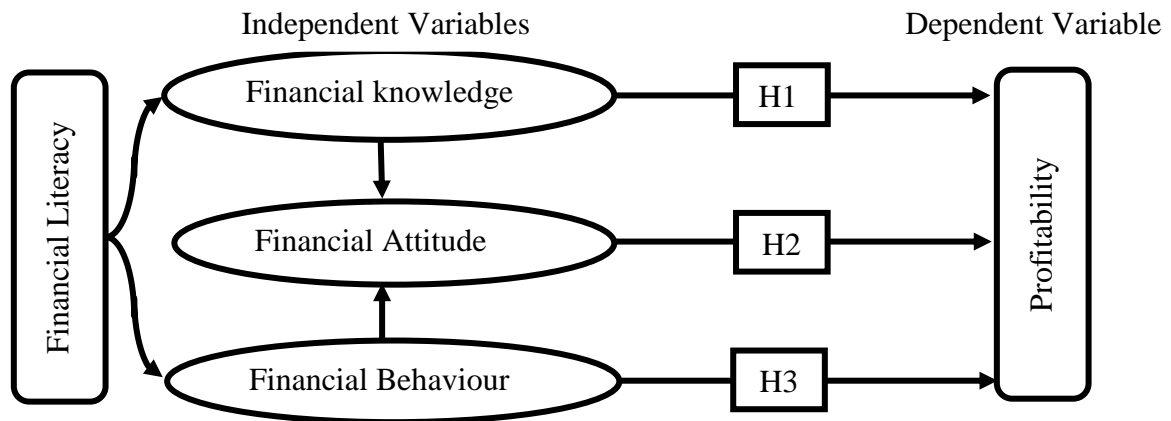


Figure 1: Financial Literacy Conceptual Framework

The study hypotheses are state as:

- (H1) H_0 : Financial literacy knowledge and business profitability are not related versus H_1 : Financial literacy knowledge and business profitability are related.
- (H2) H_0 : Financial attitude and business profitability are not related versus H_1 : Financial attitude and business profitability are related.
- (H3) H_0 : Management’s financial behaviour is not related to the profitability of the rural retail business versus H_1 : Management’s financial behaviour is related to the profitability of the rural retail business.

Data collection

A questionnaire was distributed to 150 rural retail SMEs with the instruction that it can only be completed by the owner or manager of the business. The participants were to complete the questionnaire and return to the researchers. Those who were willing to participate in the survey were given the questionnaire to complete. Thus, a voluntary sampling design (Murairwa, 2015) was used to select 150 participants who were given the questionnaire to complete.

Data Analysis tools

The research applied the Chi-square test at 5% level of significance to test the research’s hypotheses. The Chi-square (χ^2) test statistic is calculated with

$$\chi_{cal}^2 = \sum \frac{(f_o - f_e)^2}{f_e}, \tag{1}$$

where χ_{cal}^2 is the calculated Chi-square test statistic, f_e is the expected frequency and f_o is the observed frequency. The null hypothesis (H_0) is rejected if the $\chi_{cal}^2 > \chi_{tab}^2 (\alpha, r-1 \times c-1)$, otherwise it is not rejected.

VI. Results And Discussions

The distribution of the questionnaire and response rate is presented in Table 1.

Table 1: Questionnaire Response Rate

Category	Questionnaire	Percentage Response Rate
Distributed	150	-
Returned	118	78.67
Incomplete	18	12.00
Completed	100	66.67
Not returned	32	21.33

Table 1 shows that the research distributed 150 questionnaires to rural SMEs and received back 118 questionnaires. This constituted 78.67% response rate. However, 12% of the returned questionnaires were incomplete and could not be analysed for this research. The research analysed 66.67% of the fully completed questionnaires. The research assessed the relationship between financial literacy, knowledge and profitability of the rural SMEs and presented the results in Figure 2 and Table 2.

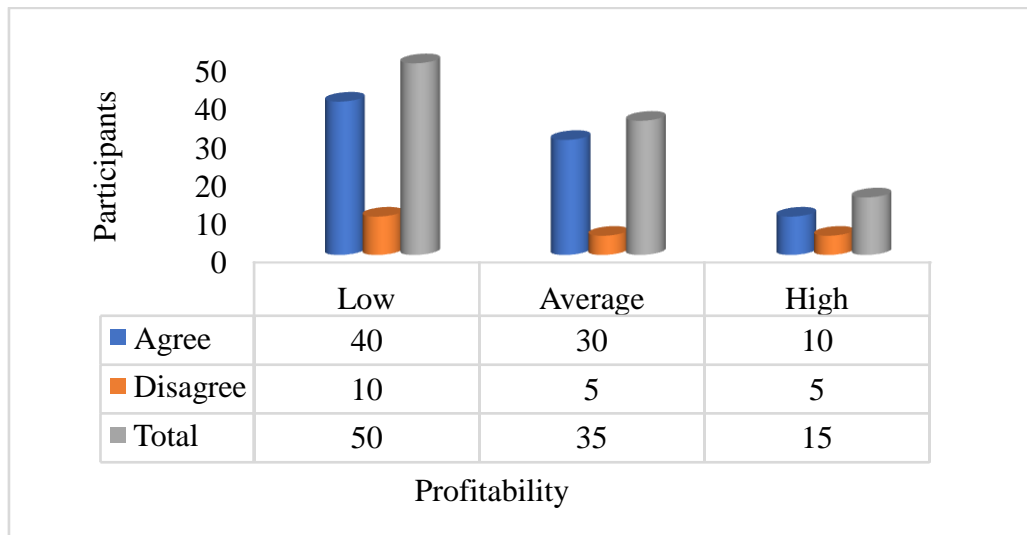


Figure 2: Perceptions on Financial Knowledge’s Effects on SME’s Profitability

Figure 2 shows the perceptions of the rural SME participants in the research survey. Of all the rural retail SME participants, 80% agreed that having financial literacy knowledge improves the profit margin of the business. The results pose a question “Is there a relationship between having financial literacy knowledge and profitability of the rural retail SME?” A Chi-square test was implemented to investigate the question and the results are presented in Table 2.

Table 2: Chi-Square Test Results

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.381 ^a	2	0.304
Likelihood Ratio	2.237	2	0.327
Linear-by-Linear Association	0.469	1	0.493
N of Valid Cases	100		

a. 1 cells (16.7%) have expected count less than 5. The minimum expected count is 3.00.

Table 2 shows a Chi-square test statistic (χ^2_{cal}) of 2.381 at 5% level of significance. The Chi-square tabulated is $\chi^2_{tab} = 5.991$. Since $\chi^2_{cal} = 2.381 < \chi^2_{tab} = 5.991$, the null hypothesis (H_0) that the financial knowledge and SME profitability are not related is not rejected. The results support Huston (2010) and Estelami’s (2014) findings who concluded that financial literacy has no effect to sound financial management decisions. On the other hand, the results contradict the results found by Lusardi and Scheresberg (2013), Chepkemoiet *al.* (2017), Kimunduet *al.* (2016) and Kotzè and Smit (2008). The researchers argued that individuals with financial literacy are assumed to be better achievers with a higher chance of succeeding in financial decisions unlike their counterparts who possess a deficiency of such knowledge. The success in managing a rural retail SME is measured by enhanced business productivity. Thus, the results indicate that financial literacy and business profitability are not related. The research examined the effects of financial attitude on profitability of rural retail SMEs and presented the results in Figure 3 and Table 3.

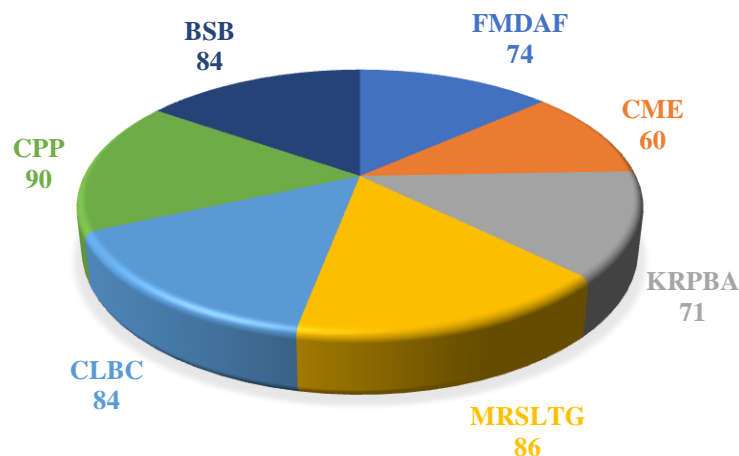


Figure 3: Financial attitudes that affect business productivity

Figure 3 shows the financial attitudes that were affecting the productivity of rural retail SMEs in Manicaland province of Zimbabwe as financial management decisions affect the future (FMDAF), controlling monthly expenses (CME), keeping and recording in proper books of accounts (KRPBA), making regular savings for long term goals (MRSLTG), comparison of loan borrowing costs (CLBC), comparison of purchase prices (CPP) and budgeting and sticking to budget (BSB). During data collection, the participants indicated that the financial attitudes had the same effects on the rural retail SMEs’ productivity. The research computed a Chi-square test statistic to test whether there is a relationship between management’s financial attitude and rural retail SME productivity and presented the results in Table 3.

Table 3: Chi-Square Test Results

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.722 ^a	8	0.285
Likelihood Ratio	11.535	8	0.173
Linear-by-Linear Association	0.303	1	0.582
N of Valid Cases	100		

a. 8 cells (53.3%) have expected count less than 5. The minimum expected count is .90.

Table 3 shows a Chi-square test statistic (χ^2_{cal}) of 9.722 at 5% level of significance. The Chi-square tabulated is $\chi^2_{tab(2,0.05)} = 5.991$. Since $\chi^2_{cal} = 9.722 > \chi^2_{tab} = 5.991$, the null hypothesis (H_0) that the financial attitude and business profitability are not related is rejected. The results indicate that financial attitude and business profitability are related. The results are in line with the findings by Firli (2017) and Abiodun (2016) that financial attitude is closely related to financial knowledge. The level of financial knowledge has a greater impact on the financial attitude displayed by individual SME management (Firli, 2017; Abiodun, 2016). The research explored the effects of financial behaviour on profitability of rural SMEs and presented the results in Table 4.

Table 4: Summary of Chi-Square Tests

Financial Behaviour	χ^2 test statistic	df	Null Hypothesis
Setting targets for the future	17.419	3	Rejected
Controlling monthly expenses	10.189	3	Rejected
Financial management decisions affect the future	9.722	3	Rejected
Achieving financial management targets	9.717	3	Rejected
Comparison of purchase prices	8.797	3	Rejected
Comparison of loan borrowing costs	8.088	3	Rejected
Budgeting and sticking to budget	6.693	3	Accepted
Effect of Interest on savings account	6.628	3	Accepted
Keeping and recording in proper books of accounts	6.382	3	Accepted
Making regular savings for long term goals	6.102	3	Accepted
Time value of money	4.155	3	Accepted
Getting worried about a financial decision	3.853	3	Accepted
Spreading of risk among different assets	3.174	3	Accepted

The Chi-square tabulated is $\chi^2_{tab(4,0.05)} = 7.815$. Table 4 shows that of the thirteen management financial behaviours tested against the rural retail SME profit, the first six financial behaviours were related to

rural retail SME's profit. The last seven financial behaviours were not related to rural retail SME's profit margin. The results of the first six financial behaviours support the findings by Firlir (2017) and Abiodun (2016) that financial behaviour was related to business profit. The results support the research findings by Thabetet al. (2019), Okoli (2011) and Maseko and Manyani (2011). Therefore, some of the financial behaviours directly affect the rural retail SME's profit margin while others do not.

VII. Conclusion And Recommendations

The study sought to establish the impact of financial literacy on economic sustainability of rural retail SMEs in Zimbabwe. For the purpose of this study, financial literacy was represented by its three dimensions of financial knowledge, financial attitude and financial behaviour, whereas profitability proxied economic sustainability, as the response variable. The study established that there is no direct relationship between financial knowledge and enterprise profitability. However, the study went on to establish that financial attitude and enterprise profitability are related, and interestingly, financial attitude was established to be associated with financial knowledge. Thus, the level of financial knowledge possessed by the SME owner/manager has a greater contribution towards motivating their financial attitudes. The study further established that financial behaviour is related to business profitability. However not all behaviours were established to have a direct impact on profitability. In a nutshell, individuals with financial literacy were assumed and established to be better achievers with a higher chance of succeeding in financial decisions which transforms and manifests through successful business endeavours and economic sustainability of their respective enterprises. The study therefore recommends the need to enhance financial literacy through promotion of positive financial attitude and behaviours among rural entrepreneurs in Zimbabwe, as it increases their chances of financial success. The study also recommends the need to recognise the intermediate role financial knowledge play towards moulding proper financial attitudes and behaviours, which are conduits to achievement of wholesome financial literacy.

Declaration of conflicting interests

The authors confirm that there is no conflict of interest to declare for this publication.

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