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**A LITERATURE REVIEW ON FINANCIAL LITERACY AND
BUSINESS PERFORMANCE OF SMALL AND MEDIUM
ENTERPRISES**

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Abstract

Financial literacy has increasingly been recognized as a strategic managerial capability that enhances the competitiveness, sustainability, and overall performance of small and medium enterprises (SMEs). Despite the growing body of research, existing evidence remains fragmented, with studies varying in their conceptualization of financial literacy and reporting inconsistent findings regarding its influence on business performance. This paper presents a systematic narrative literature review that synthesizes the conceptual, theoretical, and empirical evidence on the relationship between financial literacy and SME performance. Relevant literature was sourced from leading scholarly databases, including Scopus, Web of Science, ScienceDirect, Emerald Insight, SpringerLink, Taylor & Francis Online, Wiley Online Library, Google Scholar, and JSTOR, with emphasis on peer-reviewed studies published between 2019 and 2025. The review conceptualizes financial literacy as a multidimensional construct comprising financial knowledge, financial attitudes, and financial behaviour, while business performance is viewed from both financial and non-financial perspectives. The review is anchored on the Resource-Based Theory and Contingency Theory, which explain how financial literacy functions as a valuable intangible resource whose effectiveness is influenced by contextual factors. Empirical evidence consistently indicates that financially literate entrepreneurs are better positioned to improve financial decision-making, resource allocation, risk management, operational efficiency, profitability, and long-term business sustainability. However, variations in findings suggest that contextual and organizational factors shape the strength of this relationship. The review contributes to entrepreneurship and SME literature by providing an integrated understanding of financial literacy and business performance, identifying unresolved research gaps,

and proposing directions for future research, policy formulation, entrepreneurship education, and SME capacity-building initiatives.

Keywords: Financial literacy; Financial knowledge; Financial attitude; Financial behaviour; Business performance; Small and medium enterprises; Resource-Based Theory.

Introduction

Small and medium enterprises (SMEs) are universally recognized as major drivers of economic growth, employment generation, innovation, industrialization, and poverty reduction. Across both developed and developing economies, SMEs contribute significantly to gross domestic product (GDP), wealth creation, export diversification, and regional development. In Nigeria and other emerging economies, SMEs account for a substantial proportion of business establishments and serve as an important mechanism for addressing unemployment and promoting inclusive economic growth (Akinrinmade et al., 2025). Despite their strategic importance, however, many SMEs continue to experience poor financial performance, low productivity, high business mortality, and limited competitiveness (Oluremi & Maku, 2024). These challenges have been attributed to inadequate managerial competencies, inefficient resource utilization, poor financial planning, weak financial management practices, and limited capacity to make informed financial decisions. Consequently, improving the financial capability of SME owners has become a major priority for researchers, policymakers, financial institutions, and enterprise development agencies (Wati et al., 2025).

Among the managerial capabilities that influence enterprise success, financial literacy has emerged as one of the most important intangible resources for enhancing business performance (Nurjanaah et al., 2023). The increasing sophistication of financial markets, technological innovations in financial services, changing regulatory environments, and growing financing alternatives require entrepreneurs to possess adequate financial knowledge and practical financial management skills to make sound business decisions. Financial literacy enables entrepreneurs to interpret financial information, evaluate investment opportunities, manage business risks, prepare realistic budgets, maintain accurate financial records, control cash flows, access appropriate financing, and allocate scarce resources efficiently. As a result, financially literate entrepreneurs are better equipped to enhance business resilience, improve operational efficiency, strengthen strategic decision-making, and achieve sustainable competitive advantage.

Contemporary literature conceptualizes financial literacy as a multidimensional construct comprising financial knowledge, financial attitudes, and financial behaviour (Ocansey & Manu, 2025). Financial knowledge refers to entrepreneurs' understanding of fundamental financial concepts, including budgeting, accounting, taxation, investment analysis, cash flow management, debt management, financial reporting, and risk assessment. Such knowledge enables business owners to evaluate financial alternatives objectively and make evidence-based managerial decisions. Financial attitudes represent the beliefs, values, confidence, discipline, and psychological disposition that influence financial decision-making and resource management. Positive financial attitudes encourage prudent risk management, long-term financial planning, continuous learning, and responsible financial stewardship. Financial behaviour, on the other hand, reflects the practical application of financial knowledge and attitudes through activities such as budgeting, record-keeping, savings, investment planning, debt management, financial monitoring, and effective cash flow control. The interaction of these dimensions determines entrepreneurs' financial capability and ultimately influences enterprise growth, sustainability, and competitiveness.

Business performance remains one of the most widely studied outcomes in entrepreneurship and strategic management research because it reflects the extent to which firms achieve their financial and strategic objectives. Contemporary perspectives recognize business performance as a

multidimensional construct encompassing both financial and non-financial indicators, including profitability, sales growth, return on investment, productivity, operational efficiency, customer satisfaction, innovation, market expansion, organizational resilience, and long-term sustainability. In increasingly dynamic business environments, superior performance depends not only on the availability of financial resources but also on entrepreneurs' ability to utilize financial information effectively in making strategic and operational decisions.

The relationship between financial literacy and business performance is strongly supported by the Resource-Based Theory (RBT), which posits that valuable, rare, inimitable, and non-substitutable resources constitute the foundation of sustainable competitive advantage. Within this perspective, financial literacy represents a strategic intangible capability that enhances entrepreneurs' capacity to acquire, coordinate, and deploy organizational resources efficiently. Entrepreneurs possessing higher levels of financial knowledge, positive financial attitudes, and sound financial behaviour are more capable of optimizing resource allocation, minimizing financial risks, improving investment decisions, and adapting to changing market conditions, thereby strengthening organizational performance and long-term competitiveness.

Although a substantial body of empirical research has examined the relationship between financial literacy and business performance across different countries and sectors, the existing literature remains fragmented. Many studies examine financial literacy as a unidimensional construct, while others focus exclusively on financial knowledge, financial attitudes, or financial behaviour without adequately explaining their complementary and interactive contributions to enterprise performance. Furthermore, empirical findings vary across institutional contexts, industries, and methodological approaches, leading to inconsistent conclusions regarding the relative importance of the different dimensions of financial literacy. These inconsistencies limit the development of a comprehensive understanding of how financial literacy enhances business performance, particularly among SMEs operating in developing economies.

The motivation for this review therefore arises from the need to provide a comprehensive synthesis of the conceptual, theoretical, and empirical literature on financial literacy and business performance by integrating evidence relating to financial knowledge, financial attitudes, and financial behaviour. Specifically, the review seeks to consolidate existing knowledge, identify areas of convergence and divergence in previous findings, evaluate the theoretical foundations underpinning the financial literacy–business performance relationship, highlight unresolved conceptual and empirical gaps, and propose future research directions. The review also aims to provide evidence-based insights for policymakers, financial institutions, entrepreneurship educators, and SME owners seeking to strengthen financial capability as a pathway to improving enterprise competitiveness, resilience, and sustainable business performance.

Methodology

This study adopted a systematic narrative literature review approach to synthesize existing knowledge on financial literacy and business performance among small and medium enterprises (SMEs). Relevant literature was sourced from leading scholarly databases, including Scopus, Web of Science, ScienceDirect, Emerald Insight, SpringerLink, Taylor & Francis Online, Wiley Online Library, Google Scholar, and JSTOR. These databases were selected because they index high-quality, peer-reviewed journals with broad coverage in entrepreneurship, finance, management, and small business research, thereby ensuring the credibility, reliability, and academic rigor of the reviewed literature.

The search was conducted using combinations of keywords such as *financial literacy*, *financial knowledge*, *financial attitude*, *financial behaviour*, *financial capability*, *business performance*, *SMEs*, and *small and medium enterprises*. Priority was given to peer-reviewed empirical and conceptual studies published between 2019 and 2025 to capture contemporary developments, while seminal

theoretical studies were included where necessary to provide foundational perspectives. Studies were selected based on their direct relevance to the review variables, methodological quality, and publication in reputable academic journals. Conversely, conference papers, unpublished manuscripts, dissertations, duplicate records, and studies with limited relevance to the objectives of the review were excluded. The selected literature was critically analyzed and synthesized to identify conceptual developments, theoretical perspectives, empirical trends, areas of consensus and divergence, and research gaps concerning financial literacy and business performance.

Conceptual Review

Financial Literacy

Financial literacy is the degree to which a person understands important financial concepts and possesses the capacity and confidence to handle personal financial decision-making (Agyapong and Attram, 2019). Broadly speaking, Muhammad et al. (2020) viewed financial literacy as the combination of investors' and consumers' beliefs regarding commercial products, and their capability and confidence level for appreciation of risk and business opportunities, and take a favorable decisions and take such kind of step which helps the firm for their financial aids. It connotes the knowledge of financial perspective, which allows the investor to take decision-making. Usama and Yusoff (2019) argued that financial literacy refers to the financial knowledge and abilities which enable entrepreneurs to implement effective financial management strategies for their enterprises. In other words, financial literacy is defined as the degree to which one understands essential 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 (Kulathunga, 2020). Similarly, Lusardi and Mitchell (2014) defined financial literacy as the ability of people to process economic information and make informed decisions towards business planning, wealth creation and debt management. It encompasses a variety of key skills with regard to the establishment of business entities and making the right decisions in terms of budget planning, book-keeping and debt management with a view to seeing their success (Mutiso and Muigai, 2018).

Moreover, financial literacy can be viewed as the combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial well-being. It is simply explained as a blend of awareness, knowledge, skill, attitude, and behaviour essential to make sound financial decisions and ultimately accomplish individual financial well-being (Ahmed, 2017). Financial literacy has gained increasing interest in undeveloped countries such as Nigeria because of the increasing complexity of financial markets, increasing cost of living, and the shift of retirement responsibility from government to individuals, which all demand personal financial management capability in individuals and households (Refera et al., 2016).

Financial knowledge

Financial knowledge is defined as the understanding of key financial terms and concepts needed to function daily (Huston, 2017). It is defined by Potrich et al. (2016) as a particular kind of capital acquired in life through the ability to manage income, expenditure and savings in a safe way. Financial knowledge is wisdom acquired through learning the ability to manage income, expenditure and savings in a safe way (Lusardi & Mitchell, 2018). Financial knowledge is associated with a number of “best practice” financial behaviors, including possessing an adequate emergency fund, monitoring credit reports, avoiding checking account overdrafts, avoiding revolving debt, owning a dedicated retirement account, and having insurance protection (Robb, 2014). Financial knowledge is a very critical aspect of any decision-making regardless of the subject matter, as it is argued to result in a more effective decision (Robb, 2014). It impacts key outcomes including borrowing, savings, investment and even future plans in terms of retirement income (Lusardi & Mitchell, 2014).

Financial Attitudes

This dimension of financial literacy involves an individual's mindset, beliefs, and values toward money, saving, and the future. Financial attitudes are one of the factors that have a significant impact on financial management practice. It is defined by Eagly and Chaiken (2013) as a psychological tendency that is expressed by valuing a particular entity with some degree of favor or disfavor. Latif *et al.* (2011) defined financial attitude as the creation of value in decision-making and resource management through the application of financial principles. Financial attitude is improved through the procurement of adequate information (Abiodun, 2016). Financial attitude, such as risk aversion, time orientation, social and environmental factors and training, may add value to the profitability of a business. The willingness to learn more about how to manage finances is also of benefit to business owners because it will allow for the application of learnt financial concepts into practice. The financial attitude of business owners is improved through the procurement of adequate information (Abiodun, 2016). Research has shown that financial literacy can be boosted through the attainment of the right financial attitude in terms of risk appetite, training and time orientation, to mention a few.

Financial Behavior

Financial behavior refers to the actual financial actions and practices that individuals undertake in managing their personal finances, reflecting the application of financial knowledge, attitudes, and skills in real-life contexts. It encompasses the ways in which individuals allocate resources, plan expenditures, manage debt, save for future needs, and make investment decisions. Financial behavior is a central component of financial capability because it represents the practical enactment of financial literacy, moving beyond theoretical knowledge to concrete financial decision-making (Choowan *et al.*, 2025).

Financial behavior refers to the consistent application of financial routines and habits that promote economic stability and long-term financial wellbeing, including budgeting, monitoring expenses, saving regularly, paying bills on time, managing credit responsibly, and making informed investment decisions (Aoun, 2026). By translating knowledge and attitudes into action, individuals demonstrate self-control and planning ability, which are critical for achieving financial resilience and reducing vulnerability to economic shocks.

Financial behavior is dynamic and encompasses both short-term and long-term practices. Short-term financial behaviors involve day-to-day management of income and expenditures, such as tracking spending and prioritizing essential payments, while long-term behaviors include strategic planning for retirement, investment diversification, and establishing emergency funds (Nogueira *et al.*, 2025). These practices collectively determine an individual's capacity to meet financial goals and navigate uncertain economic environments.

Individuals with positive attitudes toward money management, higher financial confidence, and access to relevant financial information exhibit healthier financial behavior, including disciplined savings, thoughtful investment choices, and effective debt management (Ahmad *et al.*, 2024). Conversely, poor financial behavior, characterized by overspending, irregular saving, and unmanaged debt, undermines financial stability and long-term wellbeing.

Business Performance

In contemporary management and entrepreneurship research, the concept of business performance is understood as the multidimensional manifestation of a firm's ability to achieve its strategic, financial, and operational objectives over a defined period. Performance is no longer viewed narrowly through profitability alone; it encompasses a broader set of outcomes including growth, sustainability, innovation, competitive positioning, and organizational resilience (Ndlovu *et al.*, 2025).

Scholars emphasize that performance measurement must integrate both financial and non-financial indicators, as these jointly capture the complexity of enterprise outcomes (Rasheed *et al.*, 2024).

Financial indicators such as profitability ratios, revenue growth, and return on investment provide empirical evidence of economic efficiency, while non-financial indicators including customer satisfaction, innovation capacity, human capital development, and market expansion illuminate the qualitative dimensions of success that sustain long-term competitiveness. A robust performance evaluation framework considers these varied measures to provide a holistic view of organizational effectiveness.

A critical determinant of business performance is the clarity and precision of objective setting. Firms that adopt SMART (Specific, Measurable, Achievable, Relevant, and Time-bound) objectives align organizational processes with strategic aspirations, thereby enhancing accountability and facilitating systematic evaluation of performance outcomes (Devender et al., 2025). This goal-oriented approach strengthens managerial focus and provides a structured pathway for tracking progress, identifying deviations, and instituting corrective strategies where necessary.

Overall, business performance is a composite reflection of strategic goal attainment, managerial competence, and effective use of financial knowledge. In entrepreneurial settings, the interplay between financial literacy and performance underscores the importance of financial capability as a cornerstone of sustainable enterprise success. Enhancing financial literacy thus not only improves individual decision-making but also strengthens the collective performance and competitiveness of small and medium enterprises in increasingly complex economic environments.

Theoretical framework

The theoretical framework provides underlying principles that guide the understanding of the relationship between financial literacy and business performance. This study draws on two (2) theories: Resource-Based Theory (Barney, 1991) and Contingency Theory. These theories explain how financial knowledge can be used to achieve better business performance, focusing on the internal capabilities firms control.

Resource-Based Theory

This strategic management theory has been extensively applied within the management and entrepreneurship literature. The RBT looks at how the resources that a firm possesses could help create a sustainable competitive advantage for it. The firm's resources include financial (liquid and illiquid), human (knowledge, skills and competencies), technological, marketing and physical resources (Eniola and Entebang, 2016). These resources are what the RBT describes as a firm's characteristics that derive its profitability, growth and ultimately survival. The view in this theory is that such resources should be valuable, rare and inimitable (Agyapong and Attram, 2019).

However, for the firm to achieve competitive advantage, managers need to be financially literate in order to be able to analyze financial resources, appraise capabilities, analyze competitive advantage, select strategy and identify resource gaps (Nworie & Okafor, 2023). Resource-based theory postulates that the financial skills and knowledge of a firm manager have implications for how a firm can select, use, manage, and dispose of its financial assets. In contemporary entrepreneurship research, the financial literacy of a firm manager reflects the depth of financial knowledge and cognitive capabilities acquired over time, which are subsequently applied in organizing and coordinating other organizational resources to enhance firm performance (Addo et al., 2025). Financial literacy functions as an intangible managerial resource, enabling accurate interpretation of financial information, effective cash flow forecasting, optimal budgeting, and alignment of strategic choices with organizational objectives. This capacity strengthens both operational decision-making and strategic planning, thereby improving efficiency, profitability, and long-term growth prospects (Culebro-Martínez, 2024).

Empirical evidence demonstrates that managers possessing higher levels of financial literacy consistently perform better in guiding firms toward sustained competitive advantage with such

managers make informed financial decisions, manage liquidity efficiently, and navigate complex financing environments with confidence and precision (Slassi-Sennou & Es-Salmami, 2025). Financial literacy is thus conceptualized as a strategic resource that reduces informational asymmetries, enhances decision quality, and improves organizational resilience in dynamic market conditions (Rosalia et al., 2024).

The relevance of financial literacy to firm performance aligns with the Resource-Based View (RBV) of the firm, which asserts that intangible resources including knowledge, skills, experience, and cognitive capabilities are critical for achieving and sustaining superior organizational outcomes (Rehman & Mia, 2024). Managers with robust financial literacy can integrate financial knowledge with organizational procedures, strategic planning, and resource coordination, thereby enhancing adaptive and innovative capacities. Conversely, the absence of such core competencies limits a manager's ability to leverage other strategic resources, such as human capital, technological assets, and market intelligence, thereby undermining overall firm performance (Addo et al., 2025).

Moreover, financially literate managers are more likely to implement sound financial controls, conduct effective risk assessments, and adopt transparent governance practices that foster accountability, operational efficiency, and competitive advantage (Rosalia, Ratnawati, & Aisjah, 2024). Consequently, positioning financial literacy as a strategic managerial resource provides a strong theoretical foundation for understanding how managerial knowledge drives the deployment of firm resources, strategic decision-making, and long-term organizational success (Rehman & Mia, 2024).

Empirical Review

Financial Literacy, Financial knowledge, financial abilities, financial behaviour and Business Performance

Kumari (2025) conducted a quantitative investigation into the relationship between financial literacy and business performance among 100 small and medium enterprises (SMEs) in Sri Lanka. Employing descriptive analysis, correlation, and regression techniques, the study found a positive and statistically significant relationship between financial literacy and SME performance, indicating that owners' financial knowledge and skills explain variation in firm performance. Technical financial knowledge, financial market knowledge, and financial management skills were identified as key predictors of performance, with technical financial knowledge and financial management skills exerting the strongest influence. The authors attributed improved decision-making, effective budgeting, and adept cash flow management to higher literacy levels, which collectively enhanced business outcomes such as profitability and operational effectiveness. The findings highlight the importance of financial literacy training for SME owners as a strategic resource and recommended that policymakers and entrepreneurs prioritise literacy programmes to close knowledge gaps and strengthen the performance of SMEs in developing economies.

Padi et al. (2025) explored how financial literacy, entrepreneurial competencies, and corporate governance influence SME financial performance in Ghana through a cross-sectional quantitative design involving 213 SME owners. Using partial least squares structural equation modelling, the study confirmed that financial literacy and entrepreneurial competencies are significantly related to SME financial performance. More importantly, corporate governance was found to moderate these relationships, amplifying the positive effects of literacy and competencies on performance outcomes. The findings suggest that while financial literacy equips owners with essential financial decision-making and risk management skills, governance structures help ensure these competencies are effectively deployed within the enterprise. The study underscores the integrated role of literacy, management skills, and governance in driving firm performance in developing economies and highlights corporate governance as a key enhancer of financial outcomes for SMEs. Policymakers

and enterprise support agencies were urged to promote integrated capacity-building interventions that combine literacy, entrepreneurship training, and governance frameworks.

Brimah and Ofei (2025) conducted an empirical survey of 150 small and medium enterprise (SME) owners/managers in the Greater Accra region of Ghana to assess how financial literacy affects SME performance. Employing descriptive and inferential statistical methods, the researchers found that respondents generally had adequate financial knowledge, including understanding debt management, assets, and liability impacts, and economic factors like inflation and interest rates. The inferential results showed a significant positive relationship between financial literacy and SME performance, meaning that owners with better financial understanding also reported stronger business outcomes. The authors concluded that improved financial literacy helps owners make effective decisions, manage risks, and allocate resources efficiently. They further recommended enhanced training programmes to refine financial skills among SME operators to improve decision-making and long-term business sustainability. This study reinforces that financial literacy is a vital internal capability for enhancing firm performance in developing economies.

Mogale et al. (2025) investigated the relationship between financial literacy and financial performance of registered small enterprises, using survey data analysed through conventional statistical methods. The study found that financial literacy was positively correlated with financial performance outcomes, indicating that owners with greater financial understanding reported higher profitability, better financial reporting practices, and improved operational outcomes. The authors noted that financial literacy helps enterprises in budgeting, debt control, and investment decision-making, all of which contribute to stronger financial performance. The paper concluded by recommending increased financial education interventions and support barriers reduction to enable small enterprises to bridge gaps in financial competency, particularly in contexts where formal business training is limited. This study adds to the empirical evidence that financial literacy influences the financial success of small firms.

Tiaskara and Suryani (2025) investigated how financial literacy and financial access influence SME performance in the creative economy sector on Lombok Island, Indonesia. Using Primary survey data from 130 SME owners and Structural Equation Modeling (SEM-PLS) for analysis, the study examined the direct effects of financial literacy and financial access on performance, as well as the mediating role of financial risk attitude. Findings revealed that financial literacy significantly and positively influenced SME performance, confirming that entrepreneurs with stronger financial understanding were more capable of planning, budgeting, and executing financially sound decisions that improved business growth and competitiveness. Similarly, access to finance was found to have a positive effect on performance, suggesting that SMEs with better access to credit and financial services deployed their financial knowledge more effectively. Interestingly, financial risk attitude did not have a significant mediating effect, indicating that risk perceptions may not consistently translate into performance outcomes in this context. The study underscores the combined importance of financial literacy and financial access as drivers of SME success and highlights the need for financial inclusion policies that improve both education and credit accessibility for small businesses.

Filli and Muhammad (2024) explored the influence of financial literacy on the performance of small and medium enterprises (SMEs) in the Mubi North Local Government area of Adamawa State, Nigeria. Using a survey of 115 SMEs across diverse sectors (e.g., beauty salons, supermarkets, boutiques, food services), the researchers analysed responses with descriptive statistics and the Kolmogorov-Smirnov test. Results revealed that financial knowledge significantly influenced SME performance, indicating that owners with a better understanding of financial management practices such as budgeting, record-keeping, and capital allocation reported higher profitability and business continuity. Moreover, inadequate financial literacy was linked to poor performance, threatening firms' long-term sustainability. The authors recommended mandatory financial record-keeping,

government-led training programmes, and financial institutions' engagement in community education as strategies to strengthen SME financial capabilities and performance outcomes. This study provides context-specific evidence from northern Nigeria affirming that financial literacy contributes to enterprise resilience and growth.

Oluyemisi's (2024) study examined the influence of financial literacy on the performance of SMEs in Bauchi Metropolis using survey data from 223 SMEs. The findings revealed a significant positive relationship between SME performance and owners' financial literacy levels. Specifically, SMEs where owners demonstrated higher literacy exhibited better financial outcomes, including profitability, sales growth, and operational stability. The researchers argued that financial literacy enhances owners' capacity to plan financially, manage cash flows, and make sound investment decisions, which in turn strengthens business performance. The study concluded that monetary authorities and development agencies should design culturally tailored financial literacy programmes to empower entrepreneurs and improve their business outcomes. This study contributes empirical evidence from northern Nigeria that higher financial literacy among SME owners correlates with enhanced firm financial performance.

Aiyedogbon, David, and Kelechi (2023) examined how financial literacy components affect the performance of women-owned SMEs in Awka, Nigeria. Using a cross-sectional survey and regression analysis, the study assessed the impact of debt management literacy, budgeting skills, and bookkeeping on business performance. Results showed nuanced effects: debt management literacy and bookkeeping skills had significant relationships with performance, suggesting that practical financial capabilities influence outcomes, while budgeting skills did not show strong significance. The findings indicated that while financial literacy is important, its influence may vary by literacy component and context. The authors recommended holistic financial training programmes that emphasise strategic application of knowledge, especially for women entrepreneurs who face discriminatory credit access and sociocultural barriers. This study highlights complex, context-specific empirical dynamics between financial literacy elements and SME performance.

Yakob et al. (2021) empirically examined how financial literacy affects the financial performance of SMEs in Malaysia using responses from 200 owners and multiple regression for analysis. Results confirmed a positive and significant impact of financial literacy on SME performance outcomes, with literate owners demonstrating better management of core financial functions such as debt, savings, investment, and risk mitigation. The study stressed that good financial literacy among SME leaders enhances firm resilience and strategic financial planning, contributing to improved financial performance metrics. It recommended government and SME development agencies prioritise financial education programmes to bolster entrepreneurial success across Malaysia's SME sector.

Amoah and Mungai (2020) analysed the effects of financial literacy training and micro-insurance on SME financial performance in the Sekondi-Takoradi Metropolis of Ghana using an explanatory research design with 260 SMEs. The structured questionnaire collected data on financial literacy training, microinsurance, government regulation, and performance outcomes. Findings revealed that both financial literacy training and microinsurance had positive and statistically significant effects on SMEs' financial performance, although the magnitude of the effects was relatively modest. Enhanced literacy training enabled entrepreneurs to better understand financial products, manage risks, and improve decision-making, while microinsurance provided protective mechanisms that stabilised financial flows. While government regulation did not significantly moderate these relationships, the authors noted that improved policy frameworks could further bolster SME performance. The study recommended microfinance institutions tailor literacy training to the specific needs of local SMEs and expand outreach to strengthen financial competence within the sector.

Agyapong and Attram (2019) examined how owner-manager financial literacy affects the performance of SMEs in the Cape Coast Metropolis of Ghana using a sample of 132 registered SMEs

and structural equation modelling. Results demonstrated a significant positive relationship between the owner-managers' financial literacy and firm financial performance, indicating that greater understanding of financial planning, budgeting, and investment decisions translated to improved business profitability and efficiency. The findings highlighted that financial literacy allows small business leaders to anticipate financial needs, allocate resources more effectively, and make rational choices that enhance firm outcomes. This empirical evidence emphasises the necessity for structured financial education for SME owners as a pathway to improved enterprise performance. Policy recommendations included developing targeted financial literacy programmes and integrating practical finance training into SME development platforms to foster entrepreneurial success.

Diyoke (2024) examined the impact of financial knowledge and other components of financial literacy on the performance of micro, small, and medium enterprises (MSMEs) operating in the Abuja Municipal Area Council of Nigeria using a survey design and multiple regression analysis. The study drew on primary data from MSME owners, focusing on financial knowledge, financial behaviour, and financial experience as predictors of enterprise performance. Results showed that financial knowledge and financial experience had statistically significant positive effects on MSME performance, indicating that owners with stronger understanding and experience in financial matters achieved better business growth and profitability. Interestingly, financial behaviour did not show a significant direct effect, suggesting that behavioural practices alone may not translate to performance without underlying knowledge and experience. The findings underscore the importance of equipping MSME owners with enhanced financial skills and experiential learning opportunities to improve firm outcomes. The study recommended policies promoting entrepreneurship education, mentorship programmes, and practical simulations to build financial literacy that supports sustainable MSME performance.

Heryanto and Leng (2022) investigation revealed that managers with high financial knowledge are more competent in budgeting, financial planning, and cash flow control, while those with broader managerial experience could apply this knowledge more strategically in day-to-day operations. This was one of the findings of their study on how managerial experience and the three dimensions of financial literacy influence the financial management performance of small and medium enterprises (SMEs) in Surabaya, Indonesia. The researchers administered questionnaires to 400 SME owners and analysed the data using logistic regression. The study also reaffirmed that financial knowledge alone may not guarantee improved performance unless complemented by practical management experience. As such, it recommended combined training programmes that integrate financial literacy with managerial skills development to strengthen SME owners' capacity to make informed decisions and improve firm performance. This research adds to the global evidence indicating the importance of combined cognitive and experiential resources for SME success.

Gusman et al. (2019) studied how founders' financial knowledge and financial behaviour traits affect SME performance in Indonesia. Using a quantitative design with founder surveys and multivariate regression analysis, the study isolated behavioural finance traits (such as self-awareness, planning discipline, and patience) alongside financial knowledge to determine their impact on performance outcomes. Results indicated that financial knowledge significantly influenced SMEs' performance, with financially literate founders demonstrating greater capacity to make sound investment, budgeting, and financial management decisions. In addition, founders' financial behaviour traits, particularly planning discipline and self-awareness, were found to magnify the positive effects of literacy on performance, suggesting that financial competence combined with disciplined behaviours yields stronger business outcomes. The authors argued that entrepreneurial training programmes should emphasise not only technical financial knowledge but also behavioural dimensions that enhance how financial skills are applied in real business contexts.

Erhomosele and Obi (2022) investigated the relationship between financial abilities and small business growth in Nigeria using primary survey data (method details reported in published article).

Their results showed that entrepreneurs with higher levels of financial abilities are significantly more likely to grow their small businesses compared to those with lower literacy levels. The authors concluded that financial literacy is a valuable assets that support the survival, expansion, and long-term viability of small ventures. The study emphasised the need for enhanced human capital development through financial education and training as a strategy to boost SME competitiveness in resource-constrained environments.

Discussion

The review provides a comprehensive synthesis of the extant literature on financial literacy and business performance among small and medium enterprises (SMEs) by integrating methodological, conceptual, theoretical, and empirical perspectives. Methodologically, the adoption of a systematic narrative literature review enabled the integration of evidence from reputable academic databases, including Scopus, Web of Science, ScienceDirect, Emerald Insight, SpringerLink, Taylor & Francis Online, Wiley Online Library, Google Scholar, and JSTOR. The inclusion of peer-reviewed studies published predominantly between 2019 and 2025, complemented by seminal theoretical works, ensured that the review captured contemporary developments while maintaining theoretical depth. The rigorous selection criteria, which emphasized methodological quality, relevance to the review variables, and publication credibility, enhanced the reliability and comprehensiveness of the synthesized evidence.

Conceptually, the review demonstrates that financial literacy has evolved from a narrow focus on financial knowledge to a multidimensional construct comprising financial knowledge, financial attitudes, and financial behaviour. These dimensions collectively shape entrepreneurs' financial capability by enabling them to understand financial information, cultivate positive financial dispositions, and translate knowledge into prudent financial practices such as budgeting, record-keeping, cash flow management, debt control, investment planning, and financial monitoring. The review further establishes that business performance is equally multidimensional, encompassing financial outcomes such as profitability, sales growth, and return on investment alongside non-financial indicators including innovation, customer satisfaction, operational efficiency, organizational resilience, market expansion, and long-term sustainability. This conceptual integration suggests that sustainable SME performance depends not merely on access to financial resources but on entrepreneurs' ability to deploy financial knowledge and behaviours strategically in increasingly dynamic business environments.

The theoretical review reinforces this conceptual relationship through the Resource-Based Theory and Contingency Theory. Resource-Based Theory positions financial literacy as a valuable, rare, and strategically important intangible resource that enhances entrepreneurs' ability to acquire, coordinate, and deploy organizational resources effectively to achieve sustainable competitive advantage. Financial knowledge, attitudes, and behavioural competencies therefore become strategic managerial capabilities that improve financial planning, resource allocation, investment decisions, risk management, and organizational adaptability. Contingency Theory complements this perspective by suggesting that the effectiveness of financial literacy depends on contextual conditions such as organizational characteristics, governance structures, financial access, managerial experience, institutional environments, and market dynamics. Together, these theories explain why financial literacy contributes to business performance while also accounting for variations in empirical findings across different economic and institutional settings.

The empirical evidence reviewed demonstrates a strong convergence regarding the positive contribution of financial literacy to SME performance across diverse geographical contexts, including Nigeria, Ghana, Sri Lanka, Malaysia, Indonesia, and South Africa. Most studies consistently report that entrepreneurs possessing higher levels of financial knowledge, sound financial management skills, and positive financial attitudes achieve superior profitability, business growth, operational

efficiency, and long-term sustainability. Several studies further indicate that financial literacy strengthens entrepreneurs' ability to manage risks, allocate resources efficiently, access external finance, and improve strategic decision-making. Nevertheless, the review also reveals important nuances. Some empirical investigations report that individual dimensions of financial literacy, particularly financial behaviour or budgeting skills, do not always exert significant direct effects on business performance. Others demonstrate that managerial experience, corporate governance, financial access, and entrepreneurial competencies strengthen the financial literacy–performance relationship, suggesting that financial literacy functions more effectively when complemented by other organizational capabilities. These variations indicate that the influence of financial literacy is context-dependent and multidimensional rather than universal. Overall, the synthesis supports the conclusion that financial literacy represents a strategic capability through which SME owners enhance business competitiveness and sustainable performance while highlighting the need for future studies to adopt multidimensional measurement approaches and examine mediating and moderating mechanisms that explain how financial literacy translates into improved enterprise outcomes.

Conclusion

This review demonstrates that financial literacy is a critical strategic capability for enhancing the performance and long-term sustainability of small and medium enterprises (SMEs). By synthesizing the conceptual, theoretical, methodological, and empirical literature, the review establishes that financial literacy extends beyond financial knowledge to encompass financial attitudes and financial behaviour, all of which collectively influence entrepreneurs' ability to make informed financial decisions, manage resources efficiently, and improve business outcomes. The Resource-Based Theory and Contingency Theory provide strong theoretical support for understanding financial literacy as an intangible organizational resource whose effectiveness is shaped by both internal capabilities and external environmental conditions. Empirical evidence reviewed across developed and developing economies consistently indicates that financially literate entrepreneurs achieve superior profitability, growth, operational efficiency, and business resilience, although the magnitude of these effects varies across contexts and complementary organizational factors. Overall, the review contributes to the literature by providing an integrated understanding of the multidimensional relationship between financial literacy and business performance while identifying the need for future studies to adopt multidimensional measurement approaches and examine contextual mediating and moderating mechanisms that further explain how financial literacy enhances SME competitiveness and sustainable enterprise performance

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