



# Financial Literacy and Women Entrepreneurs' Performance in Lagos State, Nigeria: An Empirical Investigation

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## Research Note

### Abstract

**Purpose:** The study seeks to examine the influence of financial literacy on women entrepreneurs' performance with particular reference to Lagos State, Nigeria.

**Methods:** A survey research design was employed for this study and a judgmental sampling technique was used to select 250 women entrepreneurs engaging in trading, teaching, fashion design, and agro-allied businesses. Mean, frequency, simple percentage, and least square method of estimation were used to analyze the data.

**Results:** The study establishes that financial literacy is a major determinant of women entrepreneurs' performance.

**Implications:** The implication of this study is that if women entrepreneurs are equipped with an array of financial skills on income statement preparation, cash flow statement and cash budget preparation, the opening of a separate account for business, bookkeeping, internal control on cash, and daily cash reconciliation, they will be able to expand their businesses.

**Keywords:** Financial Literacy, Women entrepreneurs, Cash budget, Book keeping

## 1. Introduction

Women are the engine of the world economy. They function over 66% of the world's work and produce over 50% percent of the food (ILO 2016). Statistics show that over 187 million women entrepreneurs own over 40% of all non-public businesses in both formal and informal sectors globally (World Bank, 2015). Oyebamiji (2020) also confirms that female entrepreneurs own over 30% of all companies in advanced and emerging economies. Women entrepreneurs have taken up imperative positions in sustainable economic growth throughout the globe. Prior studies

verify the widespread contributions of women entrepreneurs to nations' gross domestic product, job creation, reduction of poverty, and wealth generation (Sajuyigbe, Adeyemi & Odebiyi, 2017; Maziku, Majenga, Mashenene 2014; Mwangi, 2012; Adesua-Lincoln, 2011). However, in Nigeria, women who constitute over 50% of the population which signifies a huge labor force have been marginalized. Over 50% of all women entrepreneurs face sex stereotype challenges related to access to education, and finance (Akpodono, 2016). The study of Sajuyigbe and Fadeyibi (2017) also verify that many women entrepreneurs face difficulties in obtaining loans from financial institutions due to the poor levels of financial literacy. Consequently, it hinders many bright and enthusiastic women entrepreneurs to take advantage of their potential.

Financial literacy has been acknowledged by scholars and financial analysts as a requirement for vibrant and energetic women entrepreneurs to foster the growth of entrepreneurship and prudently manage their finances (Odebiyi, Fasesin & Ayo-Oyebiyi, 2020; Odetayo, Sajuyigbe, & Adeyemi, 2020; Kuruvilla & Harikumar, 2018; Lafortune & Tessada, 2015). According to Sucuahi (2013), financial literacy such as budget preparation, keeping daily records, stock control, workable business plans, reconciliation, savings, and personal finance are germane to entrepreneurial success among women. Having identified this fact, the Central Bank of Nigeria developed a Financial Literacy Framework (FLF) in January 2013 with the aim of achieving Sustainable Development Goal number 5, which targets the elimination of all forms of gender inequality by 2030. In spite of this effort, many women entrepreneurs do not understand the idea of financial management, whilst some fail to seek financial information to make the right financial decisions. This may also be the reason why most women entrepreneurs find it extremely hard to have access to finance for expanding their businesses.

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## **2. Theoretical Framework**

### **2.1. Financial Literacy Theory**

Financial literacy theory demonstrates that financial literacy empowers women entrepreneurs with a spectrum of financial skills. According to Odebiyi et al (2020), financial literacy equips

entrepreneurs to negotiate for financial deals, capable of making financial decisions, recognize financial risks and opportunities, and make investments their savings in a more profitable venture. Atkinson and Messy (2012) also observe that financial literacy allows investors to understand financial management concepts, financial products, and the capability to make use of financial abilities to gain personal welfare via financial security. According to Usama and Yusoff, (2019), financial literacy idea enables women entrepreneurs to understand and analyze financial facts and act accordingly. In some other studies, Mwithigaa (2016) sees financial literacy as the capability of an entrepreneur to get access to financial records and make financial choices towards commercial enterprise planning, wealth advent, and debt management. Eniola and Entebang (2016) additionally confirm that financial literacy theory equips an entrepreneur to reveal a spectrum of financial skills, which considerably have an effect on decision-making behaviours, knowledge, and attitudes, regarding sound choice making and finally accomplishing enterprise performance. In the same vein, Pandey and Gupta (2018) reaffirm that financial literacy theory empowers small business entrepreneurs to make sound financial decisions that enhance operations.

## **2.2 Relationship between Financial Literacy and Women Entrepreneurs' Performance**

Prior researches have linked financial literacy to the success of small businesses throughout the globe (Gathungu&Sabana, 2018; Oke, 2018). Moreover, its impact on the overall performance of female entrepreneurs remains on the front burner of recent literature. For example, Kandolo (2018) determines the effect of financial literacy on ladies entrepreneurs' empowerment in Durban, South Africa. The author finds out that the majority of ladies lack financial training. In a similar study, Kuruvilla and Harikumar (2018) determine the degree of financial cognizance among female entrepreneurs in India. They discover that most women entrepreneurs were excluded from getting an education, while educated ones are not literate in financial matters. The work of Turyahebwa, Arthur, Aluonzi, and Byamukama (2013) additionally verify that SMEs failure especially amongst female entrepreneurs in Uganda is attributed to low adoption of financial literacy. In the equal vein, Orobia, Warren, and John (2013) lament that poor implementation of financial management practices had led to the collapse of many businesses in developing countries.

A study carried out in Sri Lanka by Rathnasiri (2015) reaffirms that lack of financial literacy skills such as financial savings skills, report maintaining skills, savings administration skills, budgeting skills, and inventory management capabilities have a negative impact on women entrepreneurs' performance. The study of Sajuyigbe et al (2017) also reiterate that lack of saving skills, inventory management skills, and record maintaining skills are the major elements affecting the performance of ladies entrepreneurs. Another study performed in the Kangra district of Himachal Pradesh by Gupta and Kaur (2014) exhibits poor financial skills coupled with low awareness of financial training responsible for the poor performance of women entrepreneurs. Okpara (2011) also laments that some female entrepreneurs do now not keep records/accounts nor do they have a bank account. They end up spending their capital because they cannot differentiate between

enterprise capital and profit. This scenario leads to business stagnation and failure of women-owned businesses, especially in developing nations.

During the course of the review, it was found that no study of financial literacy has been conducted among women entrepreneurs in Lagos State and it makes this research work novel and insightful to conduct a further probe.

### **3. Methodology**

A survey research design was employed for this study and a judgmental sampling technique was used to select two hundred and fifty (250) women entrepreneurs engaging in trading, teaching, fashion design, and agro-allied businesses. The choice of these sub-sectors is based on the ground that the majority of the number of registered businesses with Lagos State Ministry of Commerce and Industry were owned by women. The data collection instrument was a structured questionnaire designed for the study. The copies of the questionnaire were administered by the researchers and two research assistants to different parts of Lagos State. The reliability and content validities of the research instrument were determined by making use of a test-retest method and experts respectively. The Cronbach Alpha value of financial literacy and performance are 0.84 and 0.80 respectively which implied a very good inter-correlation between the questions to accurately measure the objectives across time and testing, and this was the basis for the adoption of the questionnaire as the final data collection tool of the study. Mean, simple percentage, and least square method of estimation were used to analyze the data.

### **4. Results and Discussion**

#### **4.1 Demographic profile of respondents**

The demographic profile of women entrepreneurs selected for the study included questions about their age, marital status, educational background, and their years of experience. The findings indicate that 30 percent of respondents are between 20 – 30 years, 45 percent was between 31-40 years, while only 25 percent is above 40 years. This indicates that most of the women entrepreneurs in Lagos State are vibrant. This development showcase that they can contribute significantly to economic growth and development in terms of employment generation and abatement of the poverty level. The finding also reveals that the majority of the participants were married; single constituted 35 percent but noticed there were no divorced among the respondents. It was observed that the majority of them had formal education with years of experience.

Table 1 summarizes the financial skills acquired by the respondents. The grand mean value of 2.84 which is below the criterion mean of 3 indicates that women entrepreneurs are not well rooted in financial literacy despite their level of education. The study depicts that majority of them did not aware of the available financial products and services, while some of them find it difficult to separate personal cash from business cash. It was also revealed that the majority of women entrepreneurs do not financial skills to prepare the income statement, cash flow statement, and cash budget. This finding indicates that most women entrepreneurs lack a spectrum of financial skills such as opening separate accounts for business, bookkeeping, internal

control on cash and cash budget, and daily cash reconciliation. The study is consistent with the findings of previous researchers that some women do not keep records/accounts nor do they have a bank account (Okpara, 2011), lack of savings skills, record keeping skills (Sajuyigbe et al., 2017), credit management skills (Kandolo, 2018), budgeting skills (Kuruvilla&Harikumar, 2018), and inventory management skills (Rathnasiri, 2015).

**Table 1: Mean score of Respondents by Financial Literacy Skills**

Statement	N	Mean
We operate a personal account and business account separately.	250	2.60
We are aware of all financial products and services being rendered by the financial institutions	250	2.92
We always separate personal cash from a business cash	250	2.81
We assess the ability to pay the loan before we borrow	250	2.73
We evaluate credit risk before borrowing a loan	250	2.84
We record all the daily transactions	250	3.83
We carry out cash reconciliation on the a daily basis	250	3.61
We seek for the financial advisor before borrowing	250	2.43
We prepare the income statement in line with accounting standard.	250	2.23
We prepare the cash flow statement	250	2.54
We review the budget estimates on a monthly basis	250	2.70
We have the ability to prepare our budget estimates on a timely basis	250	2.68
We have internal controls on cash	250	3.11
<b>Grand Mean</b>		<b>2.84</b>

Table 2 depicts the performance of women entrepreneurs in the study area. The grand mean of 2.93 which is less than the criterion mean of 3 indicates that the performance of women entrepreneurs is below average. This development may be as a result of financial illiteracy among the women entrepreneurs in Nigeria. In line with this observation, the study of Orobia, Warren, and John (2013) confirm that poor financial knowledge had led to the low performance of women-owned businesses in developing countries.

**Table 2: Mean Score of Respondents by Performance**

Statement	N	Mean
We have easy access to bank loans	250	2.71
Our Net cash flow (NCF) has improved tremendously	250	2.64
Ability to prepare viable business plans has improved drastically	250	2.55
We have no challenges with repaying all the borrowed funds	250	3.01
Our sales level has improved	250	3.07
We assess our customer satisfaction	250	3.12
We added value to customers	250	3.20
Profit level has increased	250	3.19
<b>Grand Mean</b>		<b>2.93</b>

**Table 3: Influence of financial literacy skills on women entrepreneurs’ performance**

Model	Unstandardized		Standardize	T	Sig.
	Coefficients		d		
	B	Std. Error	Beta		
(Constant)	2.185	.142		15.399	.000
Financial Literacy Skills	.522	.039	.579	13.336	.000

Table 3 summaries the influence of financial literacy skills on women entrepreneurs’ performance. The t-value of 13.335 and the p-value of 0.000 indicates that financial literacy skills have a significant influence on women entrepreneurs’ performance. The  $\beta$  value of 0.522 proves that financial literacy skills contribute 52.2% to women entrepreneurs’ performance. The study concurs with previous studies that financial literacy is a requirement for vibrant and energetic women entrepreneurs to foster the growth of entrepreneurship and prudently manage their finances (Odebiyi, Fasesin& Ayo-Oyebiyi, 2020; Odetayo, Sajuyigbe, &Adeyemi, 2020; Kuruvilla&Harikumar, 2018; Lafortune&Tessada, 2015). The implication of this finding is that if women entrepreneurs are equipped with an array of financial skills, their performance will be enhanced.

**5. Conclusion and Recommendations**

The study seeks to examine the influence of financial literacy on women entrepreneurs’ performance with particular reference to Lagos State, Nigeria. A survey research design was employed for this study and a judgmental sampling technique was used to select two hundred and fifty (250) women entrepreneurs engaged in trading, teaching, fashion design, and agro-allied businesses. Mean, frequency, simple percentage, and least square method of estimation were used to analyze the data. The study establishes that financial literacy is a major determinant of women entrepreneurs’ performance. This implies that if women entrepreneurs are equipped with the financial skills, they will be able to expand their businesses.

Therefore, the study recommends that women entrepreneurs should be given adequate training to improve their financial skills on income statement preparation, cash flow statement and cash budget preparation, the opening of a separate account for business, bookkeeping, internal control on cash and daily cash reconciliation. It is also important to keep informed about various financial products and services offered by financial institutions. This study is limited to Lagos State and to generalize the finding, similar research should be conducted on the same topic in other states.

**Authors’ Contribution:** All the three authors jointly contributed to the data collection, data analysis, and writing of the manuscript.

**Conflict of interest:** The authors declare no conflict of interest.

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