

The Effect of Financial Literacy on Firm Performance Thorough Mediation of Financial Access and Financial Risk Attitude: Evidence from Selected Manufacturing MSME in Ratnapura District

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Abstract

Introduction: The study assesses the effect of financial literacy on the growth of manufacturing micro, small and medium enterprises (MSMEs) in Ratnapura District, Sri Lanka while examining access to finance and financial risk as mediating variables. This study is based on the premise that MSME sector is critical in the economic development of a nation through employment creation, growth of the Gross Domestic Product (GDP), and investment in innovations. Even with this significance, financial literacy remains an area of concern especially in as far as the ability of MSMEs to have access to formal financial systems and making rational economic decisions is concerned.

Methodology: A quantitative methodology was adopted that used a self-administered structured questionnaire designed for 145 MSME owners/managers. Data were analyzed using SPSS with the aid of regression and mediation analysis using Hayes' Process Macro. Financial literacy, financial access, financial risk attitude and business performance were measured with the use of verified and standardized constructs.

Findings: Having knowledge of finance leads to greater business results through more integration into the economy and a more diversified risk attitude. In addition, MSME loans, credit and other financial services are more accessible as financial education enables better risk assessment. Mediation analysis assists in establishing that financial literacy, firm performance and financial access, and financial risk attitude are all closely interrelated in a cause and effect cycle where each is mediating the other.

Conclusion: financial literacy in the case of owners of MSMEs is crucial in increasing their financial inclusion and risk profile therefore improving the success of their businesses. There is need for financial education, also measures to correct the problem of illiteracy should be taken. Other possible mediating variables and frameworks could be investigated in future studies and other geographical areas or sectors could be incorporated.

Keywords: Financial literacy, MSMEs, business performance, financial access, financial risk attitude, Sri Lanka, Ratnapura district, quantitative research.