

# **The Effect of Financial Literacy on Firm Performance Through Mediation of Financial Access and Financial Risk Attitude: Evidence from Selected Trading MSME in Ratnapura District**

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## **Abstract**

**Introduction:** Micro, Small and Medium Enterprises (MSMEs) are important players in economic development as they provide employment and contribute significantly to the GDP of both developed and developing nations. MSMEs face challenges such as limited financial literacy, limited access to financing and poor risk management skills which at the end results in financial failure of the business. Entrepreneurs who can manage their firms more effectively and make informed decisions have access to increased resources and are more effective at managing risks. This study examines the Effect of Financial Literacy on Firm Performance Through Financial Access and Financial Risk Attitude as Mediators.

**Methodology:** This quantitative and deductive approach was followed, by the positivism philosophy, in an attempt to examine the research problem logically. Primary data were collected from 150 MSMEs using structured questionnaires. Descriptive statistics, correlation analysis, and mediation analysis were conducted using SPSS to evaluate the hypothesized relationships among financial literacy, financial access, financial risk attitude, and firm performance.

**Findings:** The findings indicate a strong positive relationship between the financial literacy of the MSMEs and their performance. Financial literacy was found to have a direct effect on performance and improved the ability to acquire financial resources and positive risk attitudes, which came as partial mediators. MSMEs with more financial knowledge found it easier to obtain funds, manage risks, and deal with market changes and thus made better performance.

**Conclusion:** The analysis demonstrates that targeted policy measures and educational programs on financial literacy should be incorporated into the agenda of MSME owners' empowerment. Statistics reveal that with better information, entrepreneurs' judgment is clear, resources are allocated better, and complex financial networks are exploited. Making finance available through efficient and uncomplicated lending and customized financial aid is critical to sustaining liquidity and fostering growth. Also, constructive risk attitudes allow MSME owners to embrace risks and mitigate uncertainties with confidence. These actions are important for establishing a nurturing environment that guarantees the viability and growth of micro, small and medium enterprises in developing countries.

**Keywords:** MSMEs, Financial Literacy, Access to Finance, Financial Risk Attitude, Firm Performance.