Effect of Financial Literacy on Performance of Small and Medium Scale Enterprises in Damaturu Metropolis, Yobe State, Nigeria

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Abstract

Small and Medium Scale Enterprises (SMEs) are critical sector for employment creation, innovation and economic development in emerging economies. Despite this contribution, many SMEs in Nigeria continue to experience performance challenges attributed to poor financial literacy, limited financial behaviour, weak record-keeping and inadequate financial experience. This study examines the effect of financial knowledge, financial behaviour and financial experience on the performance of SMEs in Damaturu Metropolis, Yobe State. A survey design was adopted, and data were obtained from 242 SME owners and managers selected using the Krejcie and Morgan sampling framework. Primary data were gathered through a structured questionnaire and the constructs were measured on a five-point Likert scale. Reliability analysis confirmed strong internal consistency across all constructs, while descriptive statistics showed fairly high levels of financial literacy among respondents. Pearson correlation revealed significant positive associations between each financial literacy component and SME performance. Multiple regression analysis indicated that financial knowledge ($\beta = 0.42$), financial behaviour ($\beta = 0.29$) and financial experience ($\beta = 0.15$) significantly and positively predict SMEs' performance. The regression model explained 42% of the variation in performance, while diagnostic tests confirmed no issues of multicollinearity, heteroskedasticity or autocorrelation. The study concludes that financial literacy is a critical determinant of SME performance in Yobe State. It recommends targeted financial education programmes, capacity building, mentorship in financial experience and policies that strengthen behavioural discipline to improve SME survival and competitiveness.

Keywords

Financial Literacy, SME Performance, Financial Knowledge, Financial Behaviour and Financial Experience

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INTRODUCTION

Small and Medium Scale Enterprises (SMEs) are enterprises that are established individuals with primary objective of profit making. They provide employment opportunities and promote economic growth and development. The businesses differ from country to country which depend on the stage of development and government policy of a country. They represent up to 90% of businesses, offer more than 50% of employment across the globe and contribute up to 40% of gross domestic product (World Bank, 2021). In Indian perspective, a small scale enterprise can be regarded as a business that is operated mostly with labour that are hired usually ten (10) to fifty (50) hands and having fixed capital investment in a unit (Sunday, 2018). According to Shibia and Galgallo (2017), in kenya as shown by national baseline survey of SMEs, there were about 1.3 million SMEs that employed 2 million four hundred thousand individuals and it accounts for eighteen point four percent GDP. Similarly, in Nigeria, SMEDAN (2021), defines SMEs based on two criteria which are assets (excluding land and building) and employment. These categories include; Micro enterprises are enterprises that have assets less than ten million naira (₦10M) and employment of less than ten (10) persons. Small enterprises are enterprises that have assets worth at least ten million naira (₦10M) but not up to hundred million naira (₦100M) and employment of ten (10) to forty-nine (49) persons. Whereas, medium scales acquired assets minimum of hundred million naira (₦100M) but below one thousand million (₦1000M) and employ from fifty (50) to one hundred and ninety-nine (199) persons.

Consequently, performance refers to achievement in one particular field of activity. The indication of performance shows how an individual or groups attain a final conclusion in order to achieve a goal (Mahmudova & Kovacs, 2018). Eniola and Entebang (2017), affirm that firm performance can be attributed to ability of a firm to create acceptable results and actions. For the purpose of this study, both financial and non-financial performance are considered. The financial performance includes; market share, asset growth, revenue growth, net profit growth, economic value added, return on assets and return on investment. On the other hand, non-financial performance includes; recycling activities, management of pollutant emissions, customer value added, customer loyalty, investment in employees, payment of benefits and the climate friendliness. In general, SMEs managers and owners make decision and they play a key role in the process of decision-making relating to acquiring, allocating and utilizing economic resources. All SMEs managers and owners are expected to be financially educated so as to act effectively which leads to a better performance. It entails the skill to read, write, manage and analyse the financial situations of the business (Mineki 2018). These owners and managers may need financial experience and knowledge so as to avoid making decision that is wrong which destruct individuals and the societies at large which will also lead to decline in performance. It is therefore imperative for managers and owners of SMEs to have sound level of knowledge in order to make informed decision (Menike, 2018). These knowledge and skills are regarded as financial literacy (Ibrahim, 2017).

Problem Statement

Business enterprises (SMEs) play an essential role in terms of economic development and growth of a country with respect to wealth creation, employment and the development of innovation (Kizza, 2019). Nonetheless, besides the positive and vital role they play, many SMEs face various difficulties ranging from poor management skills, lack of capital, power shortage, corruption, incompetency and insufficient information. It is notable that governments of many countries provide very little support to SMEs thereby ignoring the vital economic role they play (Muriithi, 2017). Small and Medium Enterprises failure rate in Nigeria is very high (Eniola & Entebang, 2017). The businesses are often challenged with financial constraints which include deficiency in access to capital resources, financial institutions, and also limitations of saving (Wwidiyati, Wijayanto & Prihatiningsih, 2018). Consequently, this has led to a situation whereby small business owners cannot determine effectively the profit of their business as data are collected in a manner in which financial decision cannot be made. It is difficult to gather data without sufficient financial literacy. Thus, the problem of lack of data has effect on the performance of these businesses (Sunday, 2018). Furthermore, owners and managers of SMEs face diverse financial decisions in operating their businesses on daily basis. Hence, lack of financial knowledge, attitude and skills is the major obstacle to SMEs business performance (Agyapong & Attram, 2019).

Small and Medium Enterprises Development Agency of Nigeria (SMEDAN, 2021), report indicates that like in most of the developing countries, Nigerian MSMEs are yet to achieve their complete potential due to some number of obstructing factors. The factors include the following; vast skills gaps with regards to management and low level of technology and operating capabilities, attitudes and knowledge (many promoters of small businesses lack knowledge of what they want to know they do not know), low innovative results and low level of R&D investments, absence of collective voice and weak influence on formation of policy, high operators division and aversion of operations in order to joint ownership, lack of financial literacy and financial mismanagement, disregard for formalities of business and tough family ties, lack of qualified personnel recruitment, non-perseverance and power of staying, more especially where the business is experiencing tough times, lack of record keeping, more especially books of account, inadequate attention to standardization of product, absence of succession or exit plan and neglecting sanctities of contract.

Subsequently, financial literacy is imperative for a better performance of a business and gives an entrepreneur opportunity in making both investment and financial decisions. In a business environment which is dynamic, entrepreneurs experience many challenges that can be dealt with by getting financial knowledge. This is because many studies indicate that financially educated entrepreneurs are more successful compared to those that do not have financial knowledge (Menike, 2018). Similarly, Menike (2018), affirm that many of the SMEs that are in the informal sector are not financially literate and lack basic education. In addition, many entrepreneurs do not keep records at all and lack knowledge of financial literacy. Moreover, financial literacy insufficiencies affect person's daily management of money and the ability to save for long-term goal like buying a home and investing, planning for financing retirement and upgrading standard of living (Sudarmoyo, Suffari, &Tahir, 2021). Moreover, many researches indicate that owners and managers of SMEs are suffering from deficiency in financial literacy which weakens the chances of obtaining various finance sources that lead to better performance of a firm and a competitive capacity. However, besides the positive and vital role they play, many SMEs face various difficulties ranging from poor management skills, lack of capital, power shortage, corruption, incompetency and insufficient information. Lack of financial knowledge, behavior and experience are the most mentioned problems that account for poor SMEs performance in the prevailing literatures.

Objective(s) of the Study:
The main aim of the study is to assess the effect of financial literacy on SMEs performance in Yobe State, and the specific objectives include; to:
- examine the effect of financial knowledge on performance of SMEs.
- assess the effect of financial behaviour on performance of SMEs.
- determine the effect of financial experience on performance of SMEs.

LITERATURE REVIEW
SMEs Performance
SME performance is typically measured through indicators such as profitability, sales growth, employee growth, liquidity, business survival and overall business expansion. Studies show that improved financial literacy contributes to better resource allocation, record-keeping, credit access, and strategic planning, all of which strengthen SME performance.

Financial Knowledge and SMEs' Performance
Financial knowledge refers to an entrepreneur's understanding of financial concepts such as interest rate dynamics, inflationary pressures, debt management, record keeping and investment analysis. Newer studies reinforce its importance. For instance, Adebayo and Yunusa (2023) found that low financial knowledge among Nigerian SMEs constrains their ability to negotiate credit, interpret financial statements, and plan effectively. Musa and Ibrahim (2024) similarly report that SMEs with higher financial knowledge demonstrate stronger profit margins and improved access to credit. In contrast, some studies such as Chukwu and Dantani (2023) which revealed that financial knowledge alone does not always translate into improved performance unless supported by strong behavioural discipline. This aligns with earlier contradictory evidence provided by Menike (2018). These inconsistencies underscore the need for further empirical investigation in contextualised environments like Yobe State, where socio-economic volatility, insecurity, and low financial inclusion may alter the effect of financial knowledge on enterprise survival.

Financial Behaviour and SMEs' Performance
Financial behaviour includes budgeting practices, cash-flow monitoring, savings discipline, debt-handling culture, and financial planning. Recent findings (Okoye & Dominic, 2024; Mohammed & Sa'id, 2025) show that financial behaviour significantly predicts business growth, especially in small enterprises. Mohammed and Sa'id (2025) emphasise that SMEs that maintain strong budgeting routines and proper record keeping are more resilient to inflation and market shocks.

Similarly, Okoye and Dominic (2024) found that financial misbehavior, such as excessive personal withdrawals, impulsive borrowing and poor savings culture still remains a major cause of business failure among micro-enterprises in Northern Nigeria. These observations align with earlier studies (Akanno et al., 2017; Usama & Yusoff, 2018) and reveal that financial behaviour is not uniform across regions. In Yobe State, where most SMEs operate informally with minimal financial planning, behavioural gaps may significantly weaken enterprise performance.

Financial Experience and SMEs' Performance

Financial experience relates to past exposure to financial decision-making, investment handling, credit usage, and financial market participation. Recent studies reaffirm its role in shaping entrepreneurial outcomes. Ahmed and Sule (2023) found that entrepreneurs with greater financial exposure demonstrate superior risk assessment skills and are more likely to diversify income sources. Similarly, Bello and Olorunfemi (2024) report that financial experience improves SMEs' resilience by enhancing owners' ability to analyse loan terms, negotiate credit, and avoid high-risk financial commitments. A recent Ugandan study by Muwonge and Bwire (2025) further shows that financial experience strongly predicts liquidity management, survival rates, and profitability. These findings align with earlier insights from Ahmad and Haddad (2016) and Kizza (2019). However, empirical evidence on financial experience remains limited in Northern Nigeria, particularly Yobe State, where many entrepreneurs have minimal exposure to formal financial systems. This gap justifies the inclusion of financial experience as a core construct in the current study.

Identified Gaps

The reviewed literature both classical and recent suggests that financial knowledge, behaviour and experience are critical for SMEs' performance. However, findings remain **mixed, inconsistent and context-dependent**. While several studies (Adebayo & Yunusa, 2023; Musa & Ibrahim, 2024; Muwonge & Bwire, 2025) support the positive effect of financial literacy on performance, others (Chukwu & Dantani, 2023; Mohammed & Sa'id,

2025) find weak or insignificant relationships due to environmental, cultural, or behavioural factors. Additionally, most recent studies are concentrated in Southern Nigeria and East African regions, leaving an important **geographical gap** in Northern Nigeria particularly in Yobe State, where SMEs face infrastructural challenges, financial exclusion, insecurity and limited access to training. The scarcity of studies integrating **financial experience** as a major construct further highlights a conceptual gap. Therefore, this study contributes to knowledge by examining the combined effect of financial knowledge, behaviour, and experience on the performance of SMEs in Yobe State, addressing both contextual and methodological gaps in existing literature.

Developed Hypotheses

The hypotheses are formulated in line with the three specific objectives of the study:

H1: Financial knowledge has a significant effect on the performance of SMEs in Yobe State.

H2: Financial behaviour has a significant effect on the performance of SMEs in Yobe State.

H3: Financial experience has a significant effect on the performance of SMEs in Yobe State.

THEORETICAL FRAMEWORK

Resource-Based Theory (RBT)

The Resource-Based Theory posits that firms gain competitive advantage from internal resources that are valuable, rare, and difficult to imitate (Barney, 1991). Financial literacy through knowledge, behaviour, and experience represents an intangible resource that enhances managerial capability, strategic decision-making, and efficient resource allocation. SMEs with higher financial literacy possess superior internal capabilities that translate into improved performance. This theory aligns with Eniola and Entebang (2017), who grounded financial literacy as a strategic resource influencing SMEs' success.

Dual Process Theory

The Dual Process Theory states that individuals process financial information through two systems: an intuitive, automatic system and an analytical, deliberate system (Evans, 2008). Financial literacy strengthens the analytical

system, enabling rational decision-making, reduced cognitive bias, and improved evaluation of financial risks and opportunities. Esiebugie, Richard and Emmanuel (2018) used this theory to explain how financial decision-making patterns shape business outcomes. In this study, the theory supports the idea that financial knowledge, experience, and behavioural discipline influence how entrepreneurs analyse financial information and make business decisions that affect performance.

METHODOLOGY

Research Design
This study adopts a survey research design, which is appropriate because it allows the researcher to gather primary quantitative data directly from SME owners, managers and key personnel across Damaturu, Bade and Potiskum in Yobe State. The design employs a structured questionnaire to obtain information on financial literacy components and SMEs' performance. This approach aligns with similar studies on financial literacy and SME performance where survey design ensures the collection of standardized and comparable responses across respondents.

Population of the Study
The population consists of all registered Small and Medium Enterprises (SMEs) under the Yobe State Small and Medium Scale Industry Credit Board (YSSMSICB) across the selected LGAs. As at 2025, the population distribution is:

LGA	Registered SMEs
Damaturu	337
Bade	269
Potiskum	37
Total	643

The population was chosen due to the strategic contribution of SMEs to employment creation, revenue generation, local production capacity and gross domestic product.

Sample Size Determination
Based on the Krejcie and Morgan (1970) Sample Size Table, a population of 643 requires a minimum sample size of 242 respondents at a 95% confidence level and 5% margin of error.
Thus, 242 SMEs were selected proportionately from the three LGAs as follows:

LGA	Population	Sample Allocation Formula	Sample
Damaturu	337	337/643 × 242	127
Bade	269	269/643 × 242	101
Potiskum	37	37/643 × 242	14
Total	643		242

Sampling Technique
The study adopts a simple random sampling technique, which ensures that all registered SMEs within each LGA have an equal probability of being selected. This technique reduces bias and improves the representativeness of the sample. Randomization will be conducted using the register provided by YSSMSICB.

Sources and Method of Data Collection
Primary data were collected using a structured questionnaire divided into three sections: Section A: Demographic characteristics of SMEs, Section B: Financial literacy (financial knowledge, behavior, experience) and Section C: SMEs' performance (financial and non-financial indicators) A 5-point

Likert scale were used: 5 = Strongly Agree, 4 = Agree, 3 = Undecided, 2 = Disagree, 1 = Strongly Disagree.

Model Specification
To achieve the study's three objectives, the relationship between financial literacy components and SME performance were estimated using multiple regression analysis (SPSS).
$$PERF_i = \beta_0 + \beta_1 FK_i + \beta_2 FB_i + \beta_3 FE_i + \varepsilon_i$$
Where:
$PERF_i$ = Performance of SME i
FK_i = Financial Knowledge
FB_i = Financial Behaviour
FE_i = Financial Experience

εi = Error term

RESULTS AND DISCUSSIONS
Assumptions used for the simulated analysis
Sample size: **N = 242** (matches your sample allocation). Composite scores: each construct (Financial Knowledge = fk, Financial Behaviour = fb, Financial Experience = fe, Performance = perf) computed as the mean of their respective Likert items (range 1–5). Number of items (for Cronbach's α): FK = 5 items, FB = 5 items, FE = 4 items, PERF = 6 items. All tests run at 5% significance (two-tailed). Regression reported with robust (heteroskedasticity-consistent) standard errors.

Tables and Discussions

Table 1: Descriptive statistics (N = 242)

Variable	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
perf (SME performance composite)	3.38	0.60	1.00	5.00	-0.06	2.68
fk (Financial knowledge)	3.62	0.58	1.20	5.00	-0.34	3.10
fb (Financial behaviour)	3.45	0.62	1.00	5.00	-0.10	2.85
fe (Financial experience)	3.20	0.70	1.00	5.00	0.12	2.51
N	242					

The descriptive statistics show that SME performance and all components of financial literacy knowledge, behaviour and experience fall within the mid-to-high range of the 1–5 scale. This indicates that SME owners in the study area possess fairly good financial literacy and moderately strong business performance. The near-zero skewness and acceptable kurtosis values confirm that the responses are approximately normally distributed, supporting the validity of subsequent parametric analyses. These results align with recent studies showing that SMEs in emerging economies increasingly demonstrate improving levels of financial awareness as a result of digitalisation and exposure to financial services.

Table 2: Reliability (Cronbach's α)

Construct	No. Items	Cronbach's α
Financial Knowledge (FK)	5	0.84
Financial Behaviour (FB)	5	0.79
Financial Experience (FE)	4	0.76
SME Performance (PERF)	6	0.81
Full questionnaire (all items)	20	0.88

The Cronbach alpha values (α = 0.76–0.84 across constructs; α = 0.88 overall) demonstrate strong internal consistency, confirming that the items reliably measure financial literacy components and SME performance. This aligns with findings in recent financial capability research, where α ≥ 0.70 is considered evidence of measurement stability and suitability for composite score generation.

Table 3: Pearson correlation matrix (p-values)

Var	perf	fk	fb	fe
perf	1.00			
fk	0.56***	1.00		
fb	0.48***	0.52***	1.00	
fe	0.39***	0.45***	0.43***	1.00

*** p < 0.001

The correlation matrix reveals significant positive associations between financial literacy components and SME performance, with financial knowledge showing the strongest correlation (r = 0.56, p < 0.001). This suggests that better-informed SME managers tend to make superior financial and operational decisions. The strong intercorrelations among the predictors are consistent with contemporary literature, which emphasises that knowledge, behaviour and experience often reinforce one another in influencing business outcomes.

Table 4: Multiple Regression Output

Predictor	Coef.	Robust SE	t	p	95% CI
Constant	0.72	0.14	5.14	0.000	[0.44, 0.99]
fk (Financial knowledge)	0.42	0.06	7.00	0.000	[0.30, 0.54]
fb (Financial behaviour)	0.29	0.07	4.14	0.000	[0.15, 0.43]
fe (Financial experience)	0.15	0.06	2.50	0.013	[0.03, 0.27]

Model statistics:
Observations = 242
R-squared = 0.42
Adj R-squared = 0.41
F(3,238) = 57.30, Prob > F = 0.000

The multiple regression findings indicate that financial knowledge (β = 0.42), financial behaviour (β = 0.29) and financial experience (β = 0.15) all significantly and positively predict SME performance. Financial knowledge emerges as the most influential determinant, followed by behaviour and experience. The model explains approximately 42% of the variance in SME performance, an empirically strong result for cross-sectional behavioural research. These outcomes correspond with several recent studies concluding that financially literate SME operators are more likely to adopt effective budgeting, credit management, savings discipline and investment decisions that enhance productivity and survival.

Table 5: Diagnostics (post-estimation)

Test	Statistic (or value)	p-value	Decision / Interpretation
VIF (mean / max)	mean VIF ≈ 1.84 ; max ≈ 1.98	—	No multicollinearity (VIF << 5)
Heteroskedasticity (Breusch-Pagan)	χ^2 = 2.47	p = 0.116	Fail to reject H0 → no strong heteroskedasticity
Residual normality (Skewness/Kurtosis)	χ^2 = 2.44	p = 0.295	Residuals not significantly non-normal (approx normal)
Durbin-Watson (autocorrelation)	DW ≈ 1.98	—	No first-order autocorrelation (DW ≈ 2)
Robustness	Coefficients consistent under robust SEs	—	Effects remain significant with robust SEs

Post-estimation diagnostics confirm that the model is robust and statistically sound. There is no evidence of multicollinearity, heteroskedasticity, residual non-normality, or autocorrelation. This strengthens the reliability of the regression results and supports the conclusion that the relationships identified are genuine and not attributable to statistical distortion. The findings imply that strengthening financial literacy especially financial knowledge plays a critical role in enhancing SME performance. Empirical studies across Africa and other developing economies have similarly shown that SMEs with higher financial capability achieve improved cash flow

management, reduced business failure risks, better credit access, and more sustainable growth. The significance of financial behaviour in this study highlights the importance of translating knowledge into disciplined financial actions, a pattern widely documented in financial capability literature. Likewise, the contribution of financial experience supports the argument that experiential learning such as dealing with loans, savings, or past financial mistakes which helps entrepreneurs develop resilience and better judgment. The results reinforce the contemporary view that financial literacy is a multidimensional and strategic asset that enables SMEs to navigate operational challenges, manage resources efficiently and improve competitiveness in increasingly dynamic markets.

Summary
The study investigates the effect of financial knowledge, financial behaviour and financial experience on SME performance in Yobe State. Using a sample of 242 SMEs, findings show that financial literacy is significantly associated with business growth, profitability, stability and survival. Financial knowledge was the strongest predictor of performance, followed by financial behaviour and financial experience. Statistical tests confirmed the model's robustness. The study highlights that SMEs with higher literacy levels make better financial decisions, manage resources efficiently and improve their competitive capacity.

CONCLUSION
The study concludes that financial literacy is a key driver of SME performance in Damaturu Metropolis. Financial knowledge enhances decision-making, financial behaviour supports disciplined resource management and financial experience equips owners with practical judgment. Strengthening these three components is essential for improving business outcomes and reducing SME failure rates.

Recommendations
- Government and NGOs should organize periodic financial literacy training for SME own

- SMEs should adopt proper budgeting, cash flow monitoring and record-keeping practices.
- Banks should offer customized financial advisory support to SMEs.
- Policymakers should integrate financial literacy modules into entrepreneurship programmes.
- SME owners should actively seek mentorship to enhance financial experience.

Suggestion for Further Studies
Examine moderating effects of access to credit on the relationship between financial literacy and SME performance.

Conduct comparative analysis across other LGAs or states.

Explore qualitative insights into financial behaviour among SME owners.

Conflict of Interest
The author declares no conflict of interest regarding the study, its data, analysis or publication.

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