

FINANCIAL LITERACY AND SMALL SCALE INDUSTRIES FIRM PERFORMANCE IN INDIA

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Abstract:

The performance of the SME firm was viewed along the full proportions of financial ,strategic and structural development. The socioeconomic function performed by SMEs is widely known in developing and emerging countries. But, in recent times, developing and developed nations have become more and more concerned about the level of financial literacy of the entrepreneur. This has emanated from peculiar to declining public and private to support systems and wide-ranging developments in the financial marketplace. Concern was also intensified by the challenging faced by the SME firm in financial context aided by there cognition that dearth of financial literacy has been one of the many elements responsible for lacks proper knowledge or information about financial decision making and that these decisions could, in turn, have tremendous unexpected consequences. Subsequently, financial literacy is now globally recognized as a major factor of economic and financial stability and development of SMEs for performance. A series of tangible trends underpin the growing worldwide interest in financial literacy as a major life skill, thus, this study set to review the influence of financial literacy on the performance of the SMEs from India's context. The study will serve as an information because that will promote and orient SMEs firm performance towards financial awareness, knowledge and perceive attitude. Also, the applied significant framework developed will assist SMEs firm owners and policy makers to identify the importance of financial literacy.

Keynotes:SME.,SocioEconomic.,Entrepreneur.,Cognition.,FinancialLiteracy.,Financial Stability

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Introduction:

The performance and growth of Small and Medium Sized Enterprises (SMEs) have throughout the nations, been of great concern to, among others, development economists, entrepreneurs, governments, venture capital firms, financial institutions and non-governmental organizations Performance management involves the establishment of a shared understanding about what is to be attained, however, is it going to be attained; and an approach to managing personnel that increases the likelihood of accomplishing success within a consented framework of planned targets, standards and individual and group ability necessities Like little drops of water that forms a mighty ocean, the littleness of small scale businesses from the cradle has been the bedrock of industrialization in developing countries of the world. Globally, small scale enterprises have contributed enormously in improving the standard of living of the people by providing jobs to relieve the society of social embarrassment, stimulating indigenous entrepreneurship and utilizing scarce resources. Financial literacy, in the brightness of the new business reality, is the capability to adequately oversee financial resources over the life cycle and connect with effectively with financial products and services. Financial literacy is about discernment and makes effective decisions on utilization of financial management This is an area that requires knowledge, skill, attitude and experience with goals to deal with the survival of the firm; profit maximization; sales maximization; capturing a particular market share ;minimizing staff turnovers and internal conflicts; and maximizing wealth. It can be among the essential strategic tools to more organize allotments of financial resources and to a considerable financial strength. In a business, decision-making needs to be rational and be a premised on available information. This implies that it is imperative that manager of business and individual should have a reasonable degree of knowledge related to the available information to make good decisions. Remund opined that financial literacy is the degree to which one understands important financial concepts and possesses the capacity and confidence to handle personal funds of appropriate, brief period decision-making and solid long-term financial forethought

What is Financial Literacy and why is it Important in india?

Financial literacy is the ability to use knowledge and skills to manage financial resources effectively for a lifetime of financial well-being. It entails the knowledge of properly making

decisions pertaining to certain personal finance areas like real estate, insurance, investing saving tax planning and retirement .It also involves intimate knowledge of concepts like interest rates financial planning, time value for money, borrowings and savings profit and loss assets and liabilities etc.Although financial literacy as a construct is a fairly recent development, financial education as an antidote to poor financial decision making is not. In the india., policy initiatives to improve the quality of personal financial decision making through financial education extend back at least to the 1950s and 1960s when states began mandating inclusion of personal finance, economics, and other consumer education topics in the educational curriculum Financial literacy indicates awareness about financial products. The importance of financial literacy has improved in recent years due to the development of economic and financial market. India is ranked number two in the list of highest financial literacy countries in the world. There are large numbers of stakeholders including the central and state governments, financial regulators, financial institutions, civil society, educationists and others are involved in spreading financial literacy. Financial literacy is considered an important adjunct for the promotion of financial inclusions and ultimately financial stability. In India the need for financial literacy is getting greater because of the low level of literacy and large section of population which remains out of the formal financial set up. The meaning of financial stability can be discussed as a condition in which the financial system is capable of withstanding shocks, thereby reducing the likelihood of disruptions in the financial intermediation process which are severe enough to significantly impair the allocation of savings to profitable investment opportunities

Review of Literature:

Vivek Kumar ¹Effective policies and programmes to support the development of small-scale enterprises depend critically on adequate knowledge of characteristics and constraints of male and female small-scale business operators. All this will also serve not only to provide a self-check to current women entrepreneurs, but also to increase women's involvement in entrepreneurship through a better understanding of the determinants of business performance of women entrepreneurs in general and in the Indian context in particular. Such an understanding of the pre-requisites for Indian women entrepreneurs to succeed in their businesses is of critical

¹ **Vivek Kumar** Gender Role in Performance of Small Scale Industry, Factors Affecting Women Entrepreneurs Growth in Delhi, Case Study., IOSR Journal of Economics and Finance (IOSR-JEF) e-ISSN: 2321-5933, p-ISSN: 2321-5925. Volume 6, Issue 4. Ver. III (Jul. - Aug. 2015), PP 50-62 www.iosrjournals.org

importance especially in today's competitive environment. Entrepreneurial orientation such as innovativeness, and risk taking are the factors found to determine the success of a woman entrepreneur in her business. Innovativeness enables women entrepreneurs to venture into new things, that is, technology, products and market whereas risk taking is required if women are to venture into relative large-scale businesses. Woman entrepreneur needs to have confidence, courage, and strong will power to succeed in business, be efficient and able to produce goods and services of high quality, steady supply and at competitive prices. This may apply to the India small-scale owners' women entrepreneurs to become more creative in producing and promoting their products and services and as well as willing to take risks with confidence they had to compete with others.

Paul Cook and Fred Nixon ²Smallness of factory or plant size is not in and of itself a virtue. The development of SMEs must be a coherent part of a development programme aimed at the achievement of explicit socio-economic objectives which vary both overtime and between countries. Appropriate and effective policy packages for SME development will similarly vary and it cannot be assumed that there will exist a standard policy package. The conditions under which SMEs can realise their employment and growth potential have to be identified and the links with poverty alleviation and other development objectives clearly established.

Tânia Isabel Mendes Fernandes³ program of financial education is expected an improvement of financial literacy levels, a reduction of the risk of small business owners experience financial difficulties due controllable factors, like excessive debt, and minimize the number of small business owners that are mere employees of their companies to become business leaders.

K. Lavanya Lathaa, C. Madhavaiah ⁴The process of development can be visualized with two different types of entrepreneurial activities. The entrepreneurship can emerge either as a result of individual efforts or collective and cooperative efforts. The first type of entrepreneurship is the

² **Paul Cook and Fred Nixon** Finance and Small and Medium-Sized Enterprise Development

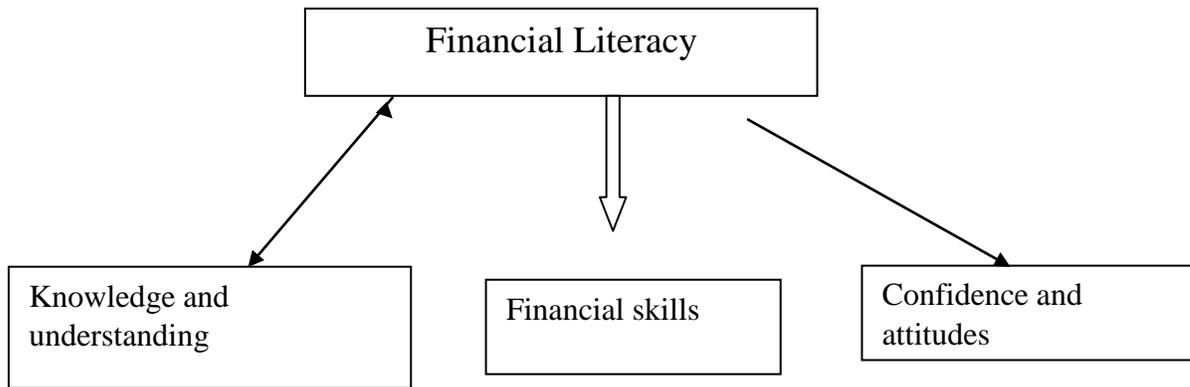
³ **Tânia Isabel Mendes Fernandes**. Financial Literacy Levels of Small Businesses Owners and it Correlation with Firms' Operating Performance

⁴ K. Lavanya Lathaa, C. Madhavaiah (2008)Small scale entrepreneurs in india Serbian Journal of Management 3 (2) (2008) 171 - 187

potent source of development. The experience of India has shown that the public or cooperative techno structures established in a backward region have initiated actively leading to the development of townships but have failed to initiate the process of development in the real terms. In such regions, since the public and cooperative techno structure has its own limitations, it is the local entrepreneurship that must get it involved in the process of development. The development would not gather momentum if much reliance is placed on the factors beyond local control. Therefore, it is absolutely necessary to break the vicious circle and initiate the process of development. To start with, among others, small – scale entrepreneurship is the most desirable dent.

Firm Performance of Small Scale Industries in india:

The concept of performance in relation to SMEs, particularly, the definition of performance will be discussed. Performance may have two strategic outcomes that are often referred to in the literature as firm success or failure. In the management field, firm performance can be interpreted a measures of good or indifferent management but it may occur to other reasons such as luck. The effects of a firm's performance depend on whether the firm has attained its goals or not (Davidsson, 2004).Firm performance is a focal phenomenon in business management. It has been proposed in the literature.The general performance of the organization depends on the correct management at the three levels of management Performance can be characterized as the firm's ability to create acceptable outcomes and actions. However, performance seems to be conceptualized, rationalized an measured in different ways, thus making cross- comparison difficult .According to Eniola and Entebang (2015a), performance is commonly employed as an index of a firm' sheath over a dedicated period. This puts performance as one of the key issues of SMEs. The capacity to institute change in management of perceiving market opportunities, adapting to the environment, and possessing certain managerial factors, product innovations, creativity, pro-activeness, technological change, networking, are all critical factors to bringing about strategic improvement in firm performance. Performance encompasses various meanings, including growth, survival, success and competitiveness. Performance can be characterized as thefirm's ability to create acceptable outcomes an



In effect t, the statement about how firms actually operate. It is based on the assumption that across firms, resources are heterogeneously allocated, and that this distribution is long lasting (Mac an Bhaird, 2010).. Much evidence indicates that firm with less financially literate is likely to stand more demanding situations with regard to performance. Greenspan (2002) argued that financial literacy helps to inculcate individuals with the financial knowledge necessary to create a household planning, initiate savings plan, and make strategic investment decisions. Proper application of that knowledge helps SME owners to meet their financial obligations through to wise planning, resource allocation and financial service demand so as to deriving maximum utility. Hilgert, Hogarth, and Beverly (2003) asserted that individuals with lower degrees of financial literacy may have lowered degrees of education, be less interested in financial matters, and be poorer. This means that the level of an individual's financial knowledge tends to influence the awareness that in turn affects the individual's financial attitude

Financial Literacy and its Influence on SME Firm Performance in india

The dependent variable tested in this study is firm performance. There are different ways of measuring firm performance. These include return on Assets defined as the ratio of earnings before interest and tax to total assets ; Return on equity (ROE) defined as the ratio of net profit to average total equity and Tobin's Q, defined as the ratio of the market value of a firm's assets to their replacement cost . For the purpose of this study, return on assets is used as a measure of firm performance. The adoption of Return on Assets helps in dealing with size bias associated with the results (Adomako and Danso, 2014).

Financial knowledge would affect in increase firm total sources of financing elucidated that literacy or knowledge is gained via practical experience and active integration of knowledge. In other words, people will become more sophisticated in terms of finance when they are more literate. Likewise, another researcher, emphasized that an individual or organization who had financial literacy knowledge and ability to put to use this knowledge, may not show the assume behavior or enhance his or her financial well-being as a result of other influences such as cognitive and behavior that is biased, self-control problems, family, peers, economic and institutional conditions that may affect the financial habits and financial well-being (Huston, 2010). However, researchers agreed that there is no established instrument applied to measure financial literacy and that financial literacy cannot be measured directly. Awareness comes under the sector of the managerial, where it is the duty of the manager to look after organization for the well-being of the business. The ability to read, analyzes, manage and discuss various financial conditions that eventually lead to individuals' economic well-being found that owners-managers have different approaches concerning business planning. Fundamentally planning was indispensable to those firms under growing growth and periods of rapid changes. However emphasized on ability and decision-making aspect of financial literacy. Berman and Knight definitely stated that financial literacy needs to become part of every business culture. Audet and St-Jean (2007) discovered that the SME owner/managers, who perceived more and aware about the external service providers, make use of those services more than SME owner/managers who did not hold any information about these services.

The small-scale industries sector plays a vital role in the growth of the country. It contributes almost 40% of the gross industrial value added in the Indian economy. It has been estimated that a million Rs. of investment in fixed assets in the small scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points. The small-scale sector has grown rapidly over the years. The growth rates during the various plan periods have been very impressive. The number of small-scale units has increased from an estimated 0.87 million units in the year 1980-81 to over 3 million in the year 2000. When the performance of this sector is viewed against the growth in the manufacturing and the industry sector as a whole, it instills confidence in the resilience of the small-scale sector.

Financial capital availability

Following Cooper et al., (1994) and Wiklund and Shepherd (2005) we measured financial capital availability. One subjective item was taken from Indian government . This item measured the entrepreneur's level of satisfaction with his/her access to financial capital. This measure is original and is measured on a seven point scale with the opposite statements "insufficient and a great impediment for our development" and "fully satisfactory for the firm's development". We then adapted four subjective items from Cooper et al., (1994). For example, entrepreneurs were asked to indicate how their companies have easy access to financial capital to support its business operations; how business operations are better financed than our key competitors' operations. This was measured on a seven-point-scale with anchors ranging from strongly disagree to strongly agree. The Cronbach's alpha of the scale was .84 for all items, indicating high reliability

Resource flexibility

Following Sanchez (1995; 1997) we measured resource flexibility. In total, five items were used to measure resource flexibility construct. Entrepreneurs(SME's) were asked to respond to the following statements:main resources are widely used in product development, manufacturing, sale etc; difficulty of switching from one use of the main resource to an alternative use is low; time of switching from one use of the main resources to an alternative use is short; cost of switching from one use of the main resources to an alternative use is low; the sharing degree of the same resources used in developing, producing, selling and after-sell services of different products is high. control variables were also adopted to account for factors other than the theoretical constructs of interest that could explain variance in the dependent variable (i.e. firm performance). As business size, business age, industry, environmental munificence, age of the entrepreneur have been found been frequently investigated in previous research and influence growth they were included as control variables. Thus, the control variables adopted in this study include firm size, firm industry, firm age and entrepreneur's age.

Conclusion

For enhancing financial literacy, the focus on the Small Scale Mediam Entrepreneurs is particularly necessary in India. The performance of SME firms leads to some critical issues and

many studies deal with the subject matter from many angles. Current study discusses one of the important issues: financial literacy is a particular problem of small and medium enterprises (SMEs), company tend to have much higher rates of job growth, but also are more likely to go out of business or remain stunted due to institutional and financial literacy problems. The significance of the small and medium enterprises (SMEs) sector is acknowledged in economies worldwide, regardless of the economy's advancing stage. The contribution en routes performance growth, employment creation and social progress is valued greatly and small and medium enterprises (SMEs) consider as a crucial factor in a successful formula for attaining economic growth. This review is one of the few studies that approached this subject. Thus, the lack of studies in this respect is due to the complex and the enterprising nature of the smalland medium enterprises (SMEs) and the different objectives, especially in india.. The benefits of enhanced financial literacy may be great. On a personal Entrepreneurs level, individuals may save more and manage their financial affairs in a better manner.

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