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The Antecedents of Financial Literacy and The Impact on SMEs' Performance: A Conceptual Paper

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Abstract
The aim of this study is to examine the level of expertise, training, and financial literacy of small and medium enterprises (SMEs) business managers and its impact on firm's performance. Most of the research in this area has been conducted outside Malaysia. Thus, there is a need to validate the financial literacy and SMEs performance relationship in the Malaysian environment due to the differences in culture, ways of thinking, legal and political situations. These differences lead to different responses, which might contribute to the different effect of financial literacy on SMEs performance. A questionnaire survey will be distributed among SMEs owners in Malaysia's manufacturing industry. It is hoped that the information provided in this study may improve the consistency of the existing evidence on SMEs performance by providing a deeper understanding on the relationship and expands the scope of the resource-based view theory and resource dependence theory from the perspective of SMEs.
Keywords: Expertise, Training, Financial Literacy, SMEs Performance

Introduction
Performance is the ways a company uses in reaching its targets. It is the process of quantifying the efficiency and effectiveness of the firm's operation (Neely et al., 1995). For owner-managers, it is expressed whether their company's targets are reachable, and as a way of evaluating risks and returns for shareholders (Kopecka, 2018). Generally, the target of achieving this performance is the common anticipation for all types of businesses that includes small businesses (Abdullah et al., 2015). Financial, human, and organisational resources have long been recognised as important factors affecting a firm's efficiency and effectiveness (Barney, 1991; Barney et al., 2001). Obviously, if a firm does not have significant resources, the probability of a firm's failure may be bigger. With strong resources, there will be increased potential for firms to grow and enable the firm to make efficient decisions and also positively contribute to the firms' performance (Sulaiman, 2016).

Human resources are one of the most important assets that can help firms achieve and sustain competitive advantage. It refers to the characteristics of personnel available and comprises the skills, education, job experiences, and other types of qualifications that enable firms to deliver superior performance (El Shoubaki et al., 2020; Nwachukwu & Chladkova, 2019; Barney, 1991). Top managements such as a director or manager in a firm is the key decision-maker to formulate and implement the firm's resources and strategies (Plakalovi, 2015). As the person primarily responsible for business management, they have the power to manage, direct, and supervise the management of the business affairs of the company (Section 211, Companies Act, 2016). The presence of the firm's representative, such as chief financial officer, finance manager, account manager, or accountant who has good criteria of human capital and also financially literate, may enhance the capabilities of firms and also be one of the factors that impact firm performance. The important reasons why a firm needs financial or accounting expertise and a knowledgeable person among the board members are to improve the quality of financial reporting and management effectively (Jeanjean & Stolowy, 2009). They need to be prepared with the latest knowledge and management skills to successfully manage and control the firm in the current environment (Mohd Harif, Osman, & Hoe, 2010) especially among Small and Medium-sized Enterprises (SMEs)

SMEs play a critical role as the backbone in facilitating the economic model of any country. SMEs are found to be a significant generator for employment and growth in a country. In Malaysia, SMEs' contribution to the National Gross Domestic Product (GDP) has increased from 29.4% in 2005 to 37.8% in 2017 (SME Annual Report, 2017/2018). Further, it grew by 38.3% in 2018 (Department of Statistics Malaysia, 2019). Manufacturing industry is a significant and important sector contributing about 22% to the Malaysia's GDP and represent more than 80% to SMEs GDP. In 2020, Malaysia has been hit by COVID-19 pandemic which not only caused the economic downturn in Malaysia but also globally. This current pandemic has affected the SME Master Plan 2012-2020, which could in turn threaten the economic wellbeing of various layers of society in Malaysia. The contribution of SMEs to the Malaysian GDP was down by more than 7.3% in 2020 compared to the previous year (Department of Statistics Malaysia, 2020). These alarming performance outcomes may cause Malaysian SMEs to lag far behind in seizing opportunities globally and ultimately fail to remain competitive (Khalique et. al., 2011).

Financial literacy and qualified personnel within SMEs may be seen as significant factors in making good financial decisions for the firm's survival. Report by OECD (2016) shows that low financial literacy and lack of financial discipline may be reasons for the poor track record of SMEs, because they can make poor decision for their firm performance. Other prior scholars found that the failure of SMEs is common (Abdullah et al., 2015), with most of them failing within their first five years (Kee-Luen et al., 2013), and some with a 60% failure rate (Ahmad & Seet, 2009). This is consistent with the findings by Husin and Ibrahim (2014) and Mustafa and Nelson (2018), in which most SMEs face difficulties to sustain their business and plan for the future due to a lack of technical skills, accounting, financial knowledge, and qualified personnel. Therefore, financial literacy among managers is a significant issue that influences a process of decision making and planning in a firm. To enrich a good performance, their level of financial literacy should be strong. Moreover, it is said that managers could act and contribute better to firm performance when they possess these factors of financial literacy such as education, experience, professional qualification, and training. For this reason, there is a need to investigate the significant factors that stimulus financial literacy antecedents, as well as to examine the relationship between financial literacy and firm performance of manufacturing SMEs in Malaysia.

The discussion of this paper was structured as follows; section 2 discusses the theories and past studies, section 3 explains the research framework and hypotheses, section 4 describes the research methodology, and the last section concludes the study.

Literature Review

Resource-Based View Theory

Firm's resources are defining as "assets, capabilities, organisational processes, knowledge, firm's feature, information, etc. controlled by a firm that enables the firm to conceive and devise strategies that improve its efficiency and effectiveness" (Barney, 1991). These attributes are thought to be important resources for a firm in the perspective of Resource-Based View (RBV) theory due to generate optimal performance and success. RBV theory claims that the lack of business resources and capabilities such as financial, human, organisational resources, and capabilities significantly affect business innovation activities (Hewitt-Dundas, 2006). This is because the resources that are managed by a manager can change the business to devise and implement strategies that improve its efficiency and effectiveness (Barney et al., 2001). This study utilises the RBV theory that emphasised the manners in which firms use their resources to achieve competitive advantage and gain performance. Managers are essential assets that enable firms to be more successful. The valuable skills, knowledge, and abilities of the managers may lead to a firm's competitive advantage as competencies are often extremely rare and it is difficult for competitors to develop all essential capabilities (Tehseen & Ramayah, 2015). Only a competent manager may develop and organise successful strategies for a firm' success and survival. Thus, the right application and preparation will help the SME managers to meet their financial commitments through smart activity planning, resource allocation, and demand of financial services to obtain maximum utility (Eniola & Entebang, 2016).

Resource Dependence Theory

Resource Dependence Theory (RDT) determines the success of organisations when they can maximise their power (Pfeffer, 1981). This theory focuses on the established relationships between organisations and their external environment in order to obtain and control essential resources. Organisations also attempt to alter their dependence relationships by minimising their own dependence or by increasing the dependence of other organisations on them. Within this perspective, organisations are seen as coalitions alerting their structure and patterns of behaviour to acquire and maintain needed external resources (Chandraul & Singh, 2014; Pfeffer & Salancik, 1978). Pfeffer (1972) argues that board members enable firms to minimise dependence or gain resources. Since the top management such as the board of directors and managers are the main linkage for connecting a firm with external dependency, thereby, by selecting a director or manager with valuable skills, influence or knowledge can reduce the dependency of a firm (Hillman et al., 2000). Hillman and Dalziel (2003) categorised sources from board capital such as expertise, experience, knowledge, reputation, and skills, which are considered as human capital. In addition, the RDT perspective on boards is also important in the study of organisational decline and bankruptcy. Hillman et al (2009) show that directors' role as a resource provider may be particularly important during decline and bankruptcy because distressed firms often experience a reduction in their relative resource bases.

Antecedents of Financial Literacy and Firm performance
Financial, human, and organisational resources have long been recognised as important factors affecting a firm's efficiency and effectiveness (Barney, 1991; Barney et al., 2001). Obviously, if a firm does not have significant resources, the probability of a firm's failure may be bigger. With strong resources, it is hoped that there will be increased potential for firms to grow and enable the firm to make efficient decisions and also positively contribute to the firms' performance (Sulaiman, 2016). The issue of financial literacy received a lot of attention in developed and emerging economies, not only the individual level but also the business level. The financial illiteracy will lead to the failure of an individual or business especially with incessant incidents of a global financial crisis that imply the risk that people and businesses across the world face (Thabet et al., 2019).

Expertise (such as education, experiences, professional membership) and training are seen as potential factors that have an impact on intangible resources (managers' financial literacy). Firms with fewer resources such as illiterate managers, may not be able to identify the solutions to business activities and will face difficulty in making decisions. Having good criteria of education, working experiences, professional qualification and regularly improved knowledge and skill through efficient and effective training practices can be a healthy source to achieve and sustain competitive advantage, as well as to improve the firm's performance.

Empirical results showed that the education and the previous job experience provide a key influence on financial literacy level and also to the performance of a business. Colombo and Grilli (2005) argue that the possibility of survival of new firms and the growth of surviving firms have generally been found to be positively related to age, education, and work experience of their owners-managers. Prior literature also found that training has a variety of positive effects on the firm's performance (Chepkemoi et al., 2017; Thang et al., 2010). This is because participation in training programs is an important contribution to build and enhance managers' knowledge and skill in fundamental business, for example, financial management, leadership development, and networking (Akhtar & Liu, 2018),

Financial literacy is considered a need for SME actors that requires not only knowledge, but also other abilities to adequately monitor financial resources and other related activities such as planning, maintenance of financial records, obtaining external funds, and professional finance advice for the survival of the SMEs (Eniola & Entebang, 2016). There are many dimensions of financial literacy have identified such as financial knowledge, financial attitude, financial behaviour (Atkinson & Messy, 2012; OECD International Network on Financial Education (INFE), 2011), financial intelligence (Plakalovi, 2015), financial skill (Dahmen & Rodríguez, 2014), ability to communicate, and use different financial concepts and instruments (Hung et al., 2009; Huston, 2010; Remund, 2010). However, there is no established instrument or standardised domain of financial literacy, as different studies make use of different dimensions (Eniola & Entebang, 2017; Ngek, 2016).

Based on the context of this study, financial literacy will be measured by financial knowledge, financial awareness, and financial attitude. Financial knowledge refers to understanding basic financial concepts of how business performance and condition are measured by using the mental model to facilitate or enrich decision-making for firm resources (Atkinson & Messy, 2012; Lusardi & Mitchell, 2007; Moore, 2003; Remund, 2010). Financial knowledge has a great impact on amplifying the total financing source of firm (Marcolin & Abraham, 2006). People can be considered financially literate only if they are capable enough to apply knowledge (Huston, 2010; Moore, 2003). In addition, they will more be involved in the financial markets because they are knowledgeable, experienced and enlightened with financial issues.

Financial attitude mentions that the capacity to analyse the new and build sophisticated financial instruments and judgements in each option of mechanisms and amount of deployment may contribute to their long-term interests (Mandell, 2008). Attitude towards decision-making methods has become a feature of many firms that are successful. SME managers with remarkable attitudinal mentality have a propensity to take risks, initiate and act proactively, as compared to conservative managers who like to escape risks and refuse to initiate and act responsively (Akhtar & Liu, 2018). Attitude is related to risk-taking, which is the firm consciously committing resources to high-risk projects, with chance of high returns and rewards, but may also entail a high possibility of failure (Lumpkin & Dess, 1996; Miller & Friesen, 1982).

Financial awareness is element in the planning and decision aspect. Financial awareness is a part of financial literacy, which is, to be financially literate, individuals must be financially aware (Mason & Wilson, 2000). People needed to be aware of their financial matters and financial status, which can enable them to make proper financial planning and better decisions making. Financial awareness refers to the ability to understand and to operate various financial strategies, to know more and be aware of the external service providers (Sulaiman, 2016).

Several researchers have empirically linked financial literacy with SME firm performance and found a significant positive association between financial literacy and firm performance (Kimunduu et al., 2016; Usama & Yusoff, 2018; Eresia-Eke & Raath, 2013). Financial literacy enables individuals and businesses to make better financial decisions and therefore undertake firm risk management more effectively (Fatoki, 2014). Firms with stronger skilled and knowledgeable personnel are better organised, more effective, and make correct decisions resulting in enhanced organisational innovation (Hitt et al., 2006). At the same time, managers with quality education, skill, knowledge, and experience will give a relevant effect on the company's financial reporting practices (Ahmed et al., 2015). Plakalovi (2015) added that a higher level of financial literacy especially financial knowledge among managers will help them use the company's resources more effectively. They will be more active in making optimal choices by analysing the cost, benefit, and risk associated with potential funds (Mabula & Ping, 2018). Financially literate firms have better insight into the financial aspects of strategic issues; hence their performance is better. The more financially literate the SME managers, the greater the firm's financial access (Mabula & Ping, 2018). Low financial literacy caused poor financial management practices and led to frequent financial mistakes (Lusardi & Mitchell, 2014).

Research Framework

The model of financial literacy, Resource Based View (RBV) and Resource Dependence Theory (RDT) as relevance theories are arranged on the research framework as suggested in Figure 1. This figure illustrates that financial literacy factors i.e.: expertise and training will directly affect the performance of SMEs.

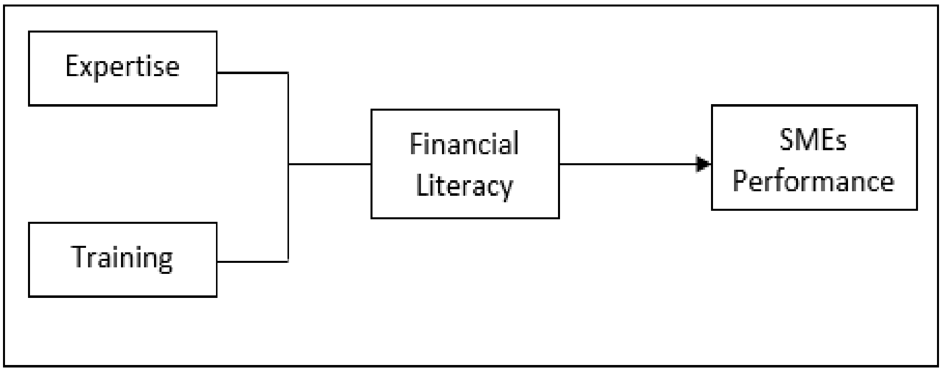

Figure 1: Research Framework

The RBV theory is employed to support the framework. RBV emphasised that the manners in which firms use their resources to achieve competitive advantage and gain performance. Manager is an essential asset and resource that enables firms to be more successful. The valuable skills, knowledge and abilities of this manager may lead to a firm's competitive advantage as competencies are often extremely rare and difficult for competitors to develop essential capabilities (Tehseen & Ramayah, 2015). From the RDT perspective, the manager acts as a link between the firm and external resources, and functions as the resource provider (Pfeffer, 1972). The manager provides expertise, experience, knowledge, reputation, and ability to the organisation (Hillman & Dalziel, 2003). Based on the review of the past literature and the proposed conceptual framework, this study hypothesises that:

H1: Expertise is positively related to a higher level of financial literacy
H2: Training is positively related to a higher level of financial literacy
H3: Financial literacy is positively associated with SME firm performance.

Research Methodology

The population in this research was SMEs in the manufacturing sector that are in Malaysia. The manufacturing sector is chosen because this industry is an important sector contributing about 22% to the Malaysian GDP and is also one of the main sectors for focus sectors of Industry 4WRD: National Policy on Industry 4.0 (Ministry of International Trade and Industry (MITI), 2018). The sample will be taken from the population. The usage of the determination table from Krejcie and Morgan (1970) is to obtain the right sample size from the population (22,389 companies), i.e., 377. For the purposes of this study, the definition by SME Corporation Malaysia (2013) will be used to define SMEs, which is based on the number of employees of the firm as presented in Table 1.

Table 1
Definition of SMEs

Sector	Size		
	Micro	Small	Medium
Manufacturing	Sales turnover of less than RM300,000 OR less than 5 full-time employees.	Sales turnover from RM300,000 to less than RM15 million OR full-time employees from 5 to less than 75.	Sales turnover from RM15 million to not exceeding RM50 million OR full-time employees from 75 to not exceeding 200.

Source: SME Corporation Malaysia (2013)

The research question is based on the combination and developed by previous researchers under the same issues and topic discussed about financial literacy and SMEs. The research will be used the questionnaires to answer the research question and will be analysed using a structural equation model (SEM), based on a partial least square (PLS). Table 2 provides the item's questionnaires used in this study.

Table 2
Item's Questionnaires

Variable	Measurement	Source
1. Firm performance	Metrics employed to quantify the efficiency and effectiveness of operations	(Sulaiman, 2016)
2. Expertise	Education - level of formal education	(OECD, 2019; Oppong-boakye & Kansanba, 2013)
	Experience - number of working experiences	(Aier et al., 2005; Dokko et al., 2009)
	Membership - professional qualification	(Aier et al., 2005; Hu et al., 2017; Krische, 2011)
3. Training	Approaches applied to develop knowledge and skills needed to perform duties	(Moideenkutty et al., 2011; Germain & Tejeda, 2012; Ahmed & Akhtar, 2012)
4. Financial literacy	Knowledge - Understanding basic financial concepts of how business performance and condition is measured in order to manage financial resources effectively	(Nga et al., 2010; Asakania, 2016; Sulaiman, 2016)
	Awareness - to current environment and the understanding of firms' financial information to make decisions	(Dahmen & Rodriguez, 2014; Sulaiman, 2016)
	Attitude - the competence to take risk in making	(Covin & Slevin, 1989; Miller & Friesen, 1982)

	appropriate financial decisions and planning for firms' resources	

Conclusion

The purpose of this study is to propose a conceptual framework for the relationship between financial Literacy and SMEs performance. Although it has been explored by other researcher, this study might give comprehensive implication regarding the influence of financial literacy on SMEs performance in the Malaysian environment due to differences in culture, ways of thinking, legal and political situations with developed countries. This study also provides guideline to measure financial literacy based on the dimension of knowledge, awareness, and attitude.

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