

# CHAPTER-20

## **UNLOCKING GROWTH: THE CRUCIAL ROLE OF FINANCIAL LITERACY IN THE DEVELOPMENT OF MICRO, SMALL, AND MEDIUM ENTERPRISES IN UTTAR PRADESH**

**Dr. Saurabh Singh**

*Assistant Professor, School of Management, IMS Unison University, Dehradun,  
Email id: [saurabh.singh123@gmail.com](mailto:saurabh.singh123@gmail.com)*

**Dr. Nitesh Rawat**

*Assistant Professor, Faculty of Commerce & Management, SGT University, Gurugram,  
Email id: [rawatnitesh564@gmail.com](mailto:rawatnitesh564@gmail.com)*

**Dr. Amit Kumar**

*Assistant Professor, Glocal School of Business and Commerce, Glocal University,  
Email id: [amit.kumar@theglocaluniversity.in](mailto:amit.kumar@theglocaluniversity.in)*

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## **ABSTRACT**

*In today economic conditions importance of MSMEs known as Micro, small, and medium enterprises are increasing day by day not because of their easy incorporation and self adjustable approaches per requirement of Business environment but also provide economic sustainability. MSME also help to improve employment rate in country by providing large number of skilled and Semi skilled jobs their roles is more important in countries like India where population growth is high and skills for employability is quite low. As MSMEs work in all over the country in different sectors with their difference base group but they all have face same type of problem because of their structures where Finance one of the major issue that MSMEs have to address where studies shows most of the time management of MSMEs take inappropriate decisions because of lack in managerial and financial knowledge. Problems with liquidity that MSMEs confront as a result of their owners less skills with inadequate expertise and grasp of financial management. Its shows MSMEs required adequate and sufficient financial literacy among owners and managers of business will help to analysed need of business and also help to It is essential for business actors and may be used to generate financial statements and its related issues. The purpose of this study is to examine the role of financial literacy among owners or managers of various MSMEs. Where its impact on accessibility of finance with association of MSMEs growth industrial clusters in Uttar Pradesh*

**Keywords:** *MSMEs, Financial Literacy, Growth, Financial Management, Financial Access*

## **1. INTRODUCTION**

In today's time period financial literacy place a very important role as the area of finance is continuously spreading day by day. After globalisation liberalisation and privatisation there has been rise in trend of electronic transactions. In last 10 years there is huge need to focus on financial literacy because without it no sector can run properly specially for MSME financial literacy place a very important role to run these MSME successfully and effectively. For a developing country like India MSME growth is very essential therefore automatically in this enterprise financial literacy is having significant role for their development. In order to educate entrepreneurs or businessman in terms of current scenario of the market financial literacy please an important role for optimum utilisation of financial resources of the country so that there can be proper growth and development of MSME in India. Uttar Pradesh is the most populated state of the country. In general terms population of Uttar Pradesh is comparatively higher to many countries of the world but still the growth and development of MSME in Uttar Pradesh is not significant. Therefore financial literacy which act as a bulk of knowledge in terms of financial activities utilisation Uttar Pradesh MSME can also lead as well as they can also contribute in different sectors of the economy. The success of any MSN depends on

their management of financial resources but in today's time period mostly MSMEs are not able to utilise their financial resources in April which is just because of financial literacy among the businessman and entrepreneurs which adversely affects MSMEs. Financial macro literacy is considered to be one of the most important factors because it creates and spreads beautiful exhibition regarding financial system stability. MSME is related with the crucial part of Indian economy as these enterprises does not work on a very large level as well as government policies related to MSMEs are very complicated in nature which creates hurdle in the growth and development of MSMEs. One of the biggest reasons of failure of MSME in India is credit mismanagement. Various types of credits like working capital loan credit cards etc. are one of the major issues related to MSMEs which focuses on the growth of financial literacy towards it. Nowadays various types of initiatives are also taken by the government in order to empower the role of MSME is for this various types of programs have been initiated in order to spread the awareness related to various financial schemes and financial services for the growth and development of MSMEs

## **2. LITERATURE REVIEW**

Literacy is way to think and act on a specific thing based on previous knowledge while associated with finance it gives individual, insight, awareness some specific economical and financial things (Shih & Ke, 2014). It also described as a management of your economical resources in acieration time to be able to get some specific goals (Samy, Tawfik, Huang, & Nagar, 2008).

Judgments and decisions regarding that help to tackle money aspects also comes in its domain financial literacy along with financial knowledge words are used by persons to in this case as to explain as ability to make economic decisions (Subarna, 2014).

The term financial literacy has evolved into different dimension where financial aspect, its communication abilities to others and personal financial planning skills with adequate ability to make economical decisions, with the respect of upcoming financial goals (Remund, 2010).

Effective financial decision required ability to get insight view on financial management for achieving the firm objectives. This will be easy if a person has knowledge related with finance (Gitman & Zutter, 2015).

Know how related with basic finance aspect will make person skill full to manage individual money matters like this if a person is equip with financial management a firm will also get benefit. By the person strength that help to manage

and achieving financial plans, during different span of time based goals. (Ibrahim & Alqaydi, 2013).

In respect of different financial offers in financial systems of developing countries SMEs' managers and owners to can predict and take steps against their financial choices. Various researches indicates that there is high level of co relations can be seen into different financial context and in the context of SMEs financial goals adaptation and this will also related with growth of SMEs accessibility of finance positively affect development of SMEs in economies (Bongomin et al., 2017).

Financial literacy which includes various topics that are related with investors in relation to understanding of investors different areas of finance that is financial risk opportunities and threads in the field of finance. Financial literacy theory proves to be very fruitful in making research as it highlights micro-small medium enterprises ability in relation to their financial wellbeing (Atkinson and Messy, 2005)

Financial literacy as an effective tool and technique so that appropriate and rational decision can be taken in terms of money and wealth. One of the most important and first basic concern for making policy for the public is to make public of the country financially literate so that financial administration of a country can be enhanced and further research of finance can be done (Gale and Levine, 2010) study on financial literacy by showing a positive correlation between financial literacy and financial education as well as with experience level of income gender and age. Basically in this study financial literacy is correlated with the demographic and socio economic variables.(Kehiaian and Williams, 2012)

Financial literacy as a various elements of combination in relation of financial knowledge financial awareness financial skills financial behaviour etc which proves to be very important for taking right financial decision in terms of an individual or for any organisation. As well as for the matter of risk and return the use of financial knowledge can be easily utilised with the help of financial literacy(Gupta and Kaur, 2014)

In respect of a conceptual model which establish relationship between micro and small enterprises and financial literacy in which micro and small enterprise is a dependent variable various financial literacy is independent variable. With the help of combination of four important elements which is debt management literacy, budgeting literacy banking service literacy and bookkeeping literacy appropriate conceptual framework is established with the help of which overall growth in sales revenue of MSME that is microsmall medium enterprises growth can be verified in relation with accumulated assets and number of employees employed(Lusimbo, 2016)

Financial literacy prefers to that discipline which makes the public of the country understand about the working of money as well as it also enhances the knowledge and application in terms of various areas of finance like financial planning, debt management, personal finance, value of money etc. From budget management to retirement planning in various activities financial literacy place a very important road and due to increase in financial literacy a person can easily handle of money management as well as investment of more money also takes place with the clarity of financial literacy concept (Irikefe, 2019)

### **3. OBJECTIVES OF THE STUDY**

- i. To measure the level of contribution done by financial literacy in MSMEs in this study
- ii. To determine the level of applicability of various elements of financial literacy in context of MSMEs

### **4. METHODOLOGY**

SMEs' managers and owners working in developing country required financial literacy help to take decisions regarding complex financial products available in financial system. Various studies show strong coequality in between financial literacy and financial accessibility in the context of MSMEs (Bongominetal., 2017).

**To make this statement verifiable through quantities methods following Hypothesis is established:**

**H01.** Financial Literacy has related with financial accessibility of MSMEs.

**H02.** Financial accessibility has related with Growth of MSME

**H03.** Financial Literacy has related with Growth of MSME

This study is based on Financial Literacy, role and how financial accessibility gives base to grow firms and achieve their objectives. Method of descriptive analysis with its suitability to explain Financial Literacy role development of MSMEs with various indicators of previous studies – Financial Literacy, financial accessibility and Growth of MSMEs adapted along with Likert scale with 5 point to explain this study objectives scale. The Research design of this study is Descriptive based on Selected SMEs of Uttar Pradesh related in Lucknow region where Sample Size 100 SMEs owner / Managers. This study is based on Purposive Sampling; Primary Data collection is based on surveys by questionnaires those are distributed to owners or managers of

MSMEs. Where Period of Data Collection: November 2021 to February 2022 while Statistical Tools: T-test and Pearson Correlations test. Are used in this study.

## **5. RESULTS AND DISCUSSION**

Result of this study is based on correlation analysis test with the range of 0.436 to 0.832; the validity testing findings reveal that all variables of MSMEs Financial Literacy construct are legitimate. Positive Correlation is established with range of 0.640 and 0.754 are found in the equal test for other variables of MSMEs Financial Accessibility develop Meanwhile, the Growth construct of MSMEs has values that are very comparable, ranging from 0.504 to 0.652. The descriptive study reveals that MSMEs' owners or managers examine their financial statements from a behavioral standpoint. through financial literacy this can be well established by the table number Where all item from number 1 to number 7 shows string positively correlation between Financial literacy and its different aspect related with firm among all such item number 3 that establishes relation between FL and insurance shows low correlation in comparison to other items because managers and owners thinkthat they required high skills to understandinsurance and its risk related issues MSMEs' Financial accessibility analysis shows that each item shows view of managers and owners of MSMEs to establish this view that Financial accessibility enhance firms conditions to meet firms financial need and make firm competitive by reducing its cost related aspect While analyzing MSMEs' Growth, which is positively assessed by the owners or managersThrough increase employing capacity of firm. Increase sales and profitability of firm along with increase assets creation capacity of firm with increasing level of financial literacy

**Table-1: Financial Literacy (FL)**

<b>S. No</b>	<b>Variables</b>	<b>Corrected Item- Correlation</b>
1.	FL help to understand finance related issues	0.567
2.	FL help to understand credit related issues	0.832
3.	FL help to understand insurance related issues	0.436
4.	FL help to understand lending operation related issues	0.621
5.	FL help to understand Aware of costs	0.521

	related issues	
6.	FL help to understand loan and interest rates related issues	0.765
7.	FL help to understand debt Management issues	0.659
8.	FL help to understand accounting issues	0.761

**Table-2: Financial Accessibility**

S. No	Variables	Corrected Item-Correlation	Mean
1	financial accessibility enhances firms' financial condition	0.756	4.342
2	financial accessibility helps to meet firms' financial need	0.876	4.4351
4	financial accessibility helps to control cost issues	0.537	4.587
5	financial accessibility makes firms product more competitive	0.769	4.6901

**Table-3: MSMEs Growth**

S. No	Variables	Corrected Item-Correlation	Mean
1	FL help to increase employing capacity of firm	0.676	4.233
2	Fl help to increase sales and profitability of firm	0.737	3.2394
3	Fl help to increase assets creation capacity of firm	0.869	4.554

Table 4 indicates that the study's three hypotheses are all supported. Financial literacy has an impact on MSMEs' access to capital, according to H1. The results show that Financial Literacy has a favorable influence on MSMEs' access to finance, with a coefficient of 0.67, a T-value of 6.34, and statistical significance at the 0.10 level. It signifies that the study's H01 was approved.

This result implies that financial accessibility will increase through financial literacy enhancement by owners or managers of MSEs while H02 indicate that financial accessibility has related with Growth of MSME where test findings reveal a positive relationship between financial accessibility and MSMEs' growth, with a coefficient of 0.32 and a t-value of 4.31 that is statistically significant at the 0.10 level, H02 was supported. In other words, if there is an increase in financial accessibility, MSMEs will develop faster.

Hypothesis, H03, predicted that Financial Literacy and MSMEs' growth are related this can be explained through. The test results with coefficient 0.88. T-value is 8.21 and also statistically significant at the 0.10 level, therefore, supporting H03 of the study.

**Table-4: Hypothesis Testing**

<b>Hypothesis</b>	<b>Variables</b>	<b>Coefficients</b>	<b>t-Values</b>
H01	Financial Literacy has related with financial accessibility	0.67	6.34
H02	Financial accessibility has related with MSMEs' Growth	0.32	4.31
H03	Financial Literacy has related with MSMEs' Growth	0.88	8.21

## **6. CONCLUSION**

The study findings give useful insights into financial literacy of where different stakeholders of MSMEs monitor their financial performance on a regular basis, although some stakeholders are not much interested in insurance related aspect to protect business wealth based on descriptive study of financial literacy, and different stakeholders of MSMEs. Firms have less financial accessibility in compression to their financial literacy indicating that they use financial services, yet they should ensure the requirement of financial literacy before using any financial services. There are various other benefits those influenced MSMEs positively in

getting finance if firms have financial literacy this will make them more effective to attain their goals also financial literacy is a string recommendations for MSMEs to grow themselves with other characteristics of performance to give them sustainable road of development

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