ISA Journal of Business, Economics and Management (ISAJBEM)

Homepage: https://isapublisher.com/isajbem/

Volume 3, Issue 4, Jul-Aug, 2026 ISSN: 3049-1835

The Influence of Financial Literacy on Financial Management: Evidence from SMEs in Douala, Cameroon

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Received: 05.07.2026 | **Accepted:** 14.08.2026 | **Published:** 25.08.2026

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DOI: *10.5281/zenodo.22099051*

Abstract **Original Research Article**

The aim of this study is to underscore the influence of financial literacy on financial management of SMEs. Purposive sampling technique was employed to collect data from 150 owner/managers of SMEs operating in the city of Douala using survey questionnaires. Data were analysed using multiple regression analysis. The results showed a positive and significant influence of financial knowledge, financial behaviour and financial attitude on both investment and financing decisions of SMEs. As a result, financial literacy is found to significantly influence financial management of SMEs. Therefore, it is important for owner/managers of SMEs to be financially literate for them to make sound financial management decisions to ensure survival, sustainability, and growth of their businesses.

Keywords: Financial literacy, financial management, SMEs.

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INTRODUCTION

Worldwide, SMEs play an important role in developing the country's economy and reducing poverty by creating jobs for the growing labour force (Dennis, 2023). According to the World Bank (2021), SMEs contribute approximately 60-70% of total employment and 50% of GDP in emerging economies. However, Small and medium enterprises (SMEs) remain susceptible as they face several problems that limit their productivity (Donggon et al., 2024). Previous studies have revealed that one of the challenges confronting SMEs is financial management (Okafor, 2016, Chhabra & Pattanayak, 2014, Karadag, 2015) hindering their growth and success (Kumar, 2023). Accordingly, a robust level of financial literacy within SMEs is crucial for enhancing the effectiveness of financial management (Dwyanti, 2024). There is no sector where financial literacy is more crucial than that of micro, small, and medium-sized businesses. Financial literacy is a person's ability to understand financial concepts and be able to solve financial problems with adequate capacity and self-confidence (Remund, 2010). On the other hand, financial literacy provides an understanding of finances and helps entrepreneurs deal with financial problems and utilise various products to make the right decisions because financial literacy is an important tool in financial management, which in turn helps business actors work better than competitors (Anshika & Singla, 2022). Hence, financial literacy is sought to be closely tied to business success (Chepngetich, 2016).

Financial literacy for SMEs is a person's skill in carrying out financial bookkeeping, debt management and budget management (Amri & Iramani, 2018). For SMEs, financial literacy provides several significant benefits. It enables business owners to better understand and manage their cash flow, make strategic investment decisions, and plan for future growth (Scott, Amajuoyi & Adeusi, 2024). Similarly, empirical research suggests that SMEs with higher financial literacy levels are better at managing debts, stabilising cash flows, and achieving long-term financial sustainability (Akhtar et al., 2024). In addition, SMEs with financially literate owners are more resilient, better equipped to withstand economic shocks, and more likely to achieve financial stability (Astuti et al., 2022; Wiagustini, Ramantha and Putra, 2023). Meanwhile, inadequate or low financial literacy causes bad financial management, which leads to frequent financial errors (Msomi and olarewaju, 2021), and hindered the ability of owner/managers of SMEs to make informed financial decisions and navigate complex financial environments effectively, for example, how to access finance (Chaidir et al., 2023). Studies such as those by Nascimento et al. (2021) illustrate that SMEs with higher levels of financial literacy are more likely to make sound investment decisions, manage risk, and allocate resources efficiently. Therefore, financial literacy is an essential factor influencing the decision-making processes of Small and Medium Enterprises (SMEs), particularly in the realm of financial management.

However, the level of financial literacy is found to be quiet low in African nations compared to other nations (Eniola and Entebang, 2017), especially among owner/managers of SMEs (Beck and Cull, 2014). Lack of financial literacy is sought to be a prominent cause in the high rate of failure experienced by SMEs. These poor financial literacy challenges lead to SME owner–manager's poor financial management and performance, and premature failure (Adegoke, 2014; Tushabomwe-Kazooba, 2006; Karadag, 2015,). For instance, Fadahunsi (1997) stated that the failure rate of SMEs is about 85 out of every 100 in African companies due to the lack of managerial decision skills and low financial literacy levels. It is found that financial management carried out by business owners is still in the poor category (Hirawati et al., 2021) affecting the ability to manage finance Anggraeni (2015). In the same vein, Philip (2025) argue that poor financial management results in cash flow crises, debt accumulation, and, ultimately, business closure. This implies that with good financial literacy, it is hoped that SMEs will be able to make appropriate investment and financial decisions to improve performance and business sustainability.

Although existing literature has acknowledged the importance of financial literacy in improving financial decision-making (Lusardi & Mitchell, 2024), there is a significant research gap in understanding how financial literacy specifically influences financial management decisions of SMEs. However, a study was conducted in Cameroon by Fah and Molem (2024) on SMEs in the city of Buea. Nevertheless, they captured the effect of financial literacy on investment decisions only being one aspect of financial management. This study aims to fill this knowledge gap by examining the influence of financial literacy on financial management, which is proxied by both investment and financing decisions. It seeks to provide empirical evidence on how knowledge, attitudes, and behaviours of owner/managers of SMEs shape their financial management extending previous studies by including financing decision considered as a paramount component of financial management.

The rest of the paper is organised as follows: **section 2** reviews the literature on financial literacy, financial management and SMEs, **section 3** covers the methodology of the study, **section** 4 focuses on the interpretation and discussions of results, and **section** 5 provides conclusive remarks and recommendations.

2- LITERATURE REVIEW

This section reviews the conceptual, empirical and theoretical literature related to SMEs, financial literacy and financial management.

2.1-SMALL AND MEDIUM-SIZED ENTERPRISES (SMEs)

The number of private businesses and limited companies had quickly risen and the majorities are SMEs (Alemayehu & Tadele, 2004). These SMEs have become an important contributor to Cameroon's economy. Explicitly, SMEs play a pivotal role in fostering economic growth, innovation, and employment (Ayyagari, Beck, & Demirgüç-Kunt, 2021). Though there is a positive impact of SMEs' sector on the global economies (Massaro, Handley, Bagnoli, & Dumay, 2016); however, the probability of SMEs failure is high (Massaro et al., 2016). The failure rate for SMEs has been significantly high. Scholars credited various factors for the failure of small businesses. Financial mismanagement is sought to be an area that causes business failure (Cowling et al., 2015). Therefore, it is important for SMEs to acquire necessary financial management skills to properly management their businesses to ensure survival and growth.

However, there is no universal (common) definition for SMEs in the world to date. Most countries classify a firm as small, medium, or large based on criteria like the number of employees, total value of assets, total capital, and annual sales. This implies that the definition of small and medium businesses depends on the country and its economic level (Aklilu & Onsare, 2024). Similar to Fah and Molem (2024), the definition of SMEs for this study is based on Law No. 2015/010 of the 16th of July 2015 on the Promotion of Small and Medium Size Enterprises. The law states that Very Small (Micro) Enterprises refer to those that hire less than five people with an annual revenue of 15 million FCFA, while small firms refer to those that employ 6 - 20 employees with having an annual turnover of 15 - 250 million. Finally, medium-sized enterprises apply to those who hire from 21 - 100 people and have an annual turnover of 100 million to 3 billion.

2.2-SCOPE OF FINANCIAL MANAGEMENT

Financial management involves making financial decisions for both long-term and short-term goals to ensure that the return on capital exceeds the cost without assuming an excessive amount of financial risk (Abey et al., 2021). These practices are likely to have a marked effect on the financial performance of an enterprise. Therefore, sound financial decisions and practices can contribute towards meeting the desired objective of having profitable operations (Jain et al., 2013). To achieve good performance, SME players must know how to manage their company's finances. However, financial management is something that is often ignored by SME players. In this study financial management of SMEs is captured by investment and financing decisions. Both decisions are sought to be the core of financial management likely to influence performance of SMEs.

2.2.1-Investment decision

Investment decisions involve allocating capital in fixed and working assets. Despite their significant contribution to the economy, many SMEs struggle with making informed investment decisions due to a lack of financial knowledge and understanding. This deficiency in financial literacy hinders their ability to assess investment opportunities, manage financial risks, and optimise capital structures, ultimately affecting their long-term growth and financial stability (Goyal & Joshi, 2022). According to Alshebami and Aldhyani (2022), individuals need to develop their capacity to make fair investment decisions by increasing their knowledge and skills in finance. Financial literacy is increasingly recognised as a vital component influencing investment decisions among SMEs (Donggon et al., 2024). For instance, financially literate SME owners are more likely to engage in prudent investment practices, ultimately leading to enhanced business performance and resilience (Lusardi, 2019). In addition, SMEs with higher financial literacy levels are more proficient at securing funding, managing financial resources, and making effective investments that contribute to business growth (Lusardi & Mitchell, 2024).

A majority of empirical findings highlighted a positive impact of financial literacy on investment decisions. For instance, Fah and Molem (2024) found that financial literacy influence investment decisions of SMEs operating in the town of Buea. In the same vein, Balagobei and Prashanthan (2021) found a significant positive relationship between financial literacy comprising financial knowledge, behaviour, and attitude and investment decisions. The study concluded that fostering financial knowledge and behaviour could significantly improve investors' ability to make informed financial choices, thereby recommending targeted financial literacy programs. Ademola (2019) indicated a significant positive effect between financial knowledge, risk perception, and investment decisions. According to these authors, financial literacy not only improves financial knowledge but also address risk perception as a critical factor influencing investment choices. Bhushan (2019) found that individuals with higher financial literacy were more knowledgeable about available financial products, enabling them to make better informed investment decisions. This study highlighted the essential role of financial education in improving individuals' understanding of investment options and risk return trade-offs, thus advocating for broader financial literacy initiatives to empower investors. From a diverse sample of individuals, Hastings et al. (2013) examined the impact of financial literacy on investment portfolio diversification, and found that those with higher financial literacy were more likely to diversify their investment portfolios leading to better investment performance and risk management emphasising the need for financial literacy programs that specifically educate individuals on portfolio management and diversification strategies to improve investment decision-making. Through a pre- and post-assessment of 500 participants enrolled in financial training programs, Cohen and Benedict (2019) assessed the effect of financial literacy programs on investment behaviour, and found a significant increase in participants' financial awareness and diversification of investments after completing the program. According to these authors, expanding financial literacy initiatives could substantially enhance individuals' financial behaviours and investment decisions, especially among those with limited prior financial exposure. Donggo et al. (2024) investigated the impact of financial literacy on the investment choices of SMEs. The research demonstrated a substantial correlation between financial literacy and investment decisions. They advocated that financial literacy, personal characteristics, financial knowledge, and awareness are important predictors of investing choices. Therefore, business owners may need financial literacy to make better decisions when saving or investing their money. As stated by Fah and Molem (2024), those who want to become entrepreneurs should understand the difficulties and dangers involved in running businesses. They might decide not to invest and to work as workers if they do not take this into account. In the same vein, Gilenko and Chernova (2021) contend that individuals with greater financial literacy can make prudent retirement plans and investment decisions more quickly. In contrast, those with lower financial literacy tend to make unwise choices that negatively affect their financial resources. A complete understanding of financial concepts will enable individuals to prevent indebtedness, secure their initial automobile loan, and enhance their savings by engaging in investment activities (Menike, 2019).

2.2.2-Financing decision

Capital structure, or the mix of debt and equity used to fund a company's activities, is another aspect of financial management to consider. One of the most complex decisions a firm can make concerns the structure of capital; poor decisions in this regards lead to a high cost of capital and low profitability (Fatoki, 2014). Financing decisions also called capital structure decisions, which are concerned with managerial decision-making based on the sources of funds the business organisation has used to finance its operations and other investment projects; such as long-term debt, short-term loans, and equity finance (Pandey, 2005). In the corporate finance literature, there has been a long investigation into the decision-making methods used by corporations in choosing which financing source to use for their investment projects. Decisions about what resources are needed, when they are needed and how they can be assessed are strategic decisions and elements of the driving force of entrepreneurship (Timmons and Spinelli, 2007). Financing decisions are crucial for the success and survival of small and medium-sized enterprises (SMEs). Therefore, understanding the influence of financial literate on financing decisions of SMEs is important. Indeed, the literature on SME financing decisions highlights several factors that affect how owners and managers make financing decisions. One key factor is the financial literacy of owners and managers. Research has found that owners and managers with higher levels of financial literacy are better equipped to make informed financing decisions (Lusimbo, 2016). Therefore, financial literacy influences financing decisions making of firms.

2.3-FINANCIAL LITERACY

There is an increased recognition of financial literacy as an ideal catalyst of financial management of SMEs. According to Muhongerwa & Tarus (2025), financial literacy involves the ability to understand key financial concepts such as cash flow management, risk assessment, and the implications of various investment options, which are essential for making informed decisions. In addition, financial literacy refers to the capacity to understand and apply various financial concepts and tools, including budgeting, saving, investing, and managing debt. Moreover, financial literacy concerns understanding of financial principles, concepts, skills, and the capacity to apply such knowledge to formulate informed decisions (Esiebugie, Richard, & Emmanuel, 2018). Financial literacy provides an understanding of finances and helps entrepreneurs deal with financial problems and utilise various products to make the right decisions because financial literacy is an important tool in financial management, which in turn helps business actors work better than competitors (Anshika & Singla, 2022). Understanding financial literacy is essential for enhancing the success of small businesses. For owners of SMEs, this understanding is critical in managing their enterprises effectively, optimising resources, and achieving long-term success (Aderemi, et. al., 2024, Scott, Amajuoyi & Adeusi, 2024, Uwaoma, et. al., 2023). Without financial knowledge, SMEs often struggle to secure funding, manage cash flows, and navigate financial risks, leading to business failure (Ferawati, Fadah and Paramu, 2024). Financial literate SMEs are better equipped, and more likely to make strategic investment decisions, engage in effective financial planning, assess risk, utilise financial services, and allocate resources efficiently, which leads to higher profitability, business resilience and long-term business success. According to Aklilu & Onsare (2024), the majority of SMEs operating in selected developing countries, including Ethiopia, manage their finances in a poor manner due to the inadequacy of financial literacy skills for owners and managers. It therefore implies that financial literacy affects the profitability of SMEs.

2.3.1-Financial literacy and financial management

In the literature, there exists a plethora of findings underscoring the effect of financial literacy on financial management of individuals on one hand, and SMEs on the other hand. This research shows that there is a positive and significant effect of financial literacy on financial management behaviour. For instance, Putra et al. (2016) found that financial literacy is closely related to financial management individually or personally, including investment decisions, funding, and good asset management. According to these authors, financially literates had a better appreciation and application of the financial management practices. Anggraeni (2015) found that the level of financial literacy of MSME owners in Depok was still low, so that it affected the ability to manage finances that were not yet good. In the same vein, Aribawa (2016) states that there is an influence of financial literacy on the performance and sustainability of creative MSME businesses in Central Java. This implies that with good financial literacy, it is hoped that MSMEs will be able to make appropriate management and financial decisions to improve performance and business sustainability. According to this author, MSMEs with good financial literacy will achieve their company goals, have a business development orientation, and survive in difficult economic conditions. Molosiwa & Holland (2025) investigates the impact of financial literacy on small and medium-sized enterprises (SMEs), focusing on its role in enhancing financial decision-making, access to finance, fintech adoption, and risk management. Findings reveal that financial literacy significantly improves SMEs' ability to budget, manage debt, and evaluate investment decisions. It also enhances creditworthiness through improved financial record-keeping, thereby facilitating access to financing. Fah and Molem (2024) found financial literacy has a direct effect on investing decisions of SMEs located in Buea.

H1: There is an influence of financial literacy on the financial management of SMEs

2.3.2-Components of financial literacy

Financial literacy is a combination of knowledge, attitude, and behaviour needed to create financial awareness and ultimately achieve specific objectives. Accordingly, in this study financial literacy is captured by financial knowledge, financial attitude, and financial behaviour.

2.3.2.1-Financial attitude

Financial attitude is one of the factors that have significant impact on financial management practice. Attitudes and preferences are considered to be an important element of financial literacy. Financial attitude refers to the psychological tendencies, beliefs, and feelings that shape how individuals approach financial decisions. Defined as an individual's predisposition or mindset toward financial matters, financial attitude influences how owners perceive investment risks, approach financial planning, and prioritise savings or consumption (OECD, 2016; Widjayanti, 2025). According to Klontz et al. (2011), financial attitude represents a mindset influencing decision-making, particularly in terms of risk tolerance and financial planning. Financial attitude is an individual's ability to plan and maintain his finances for the future (Rai et al., 2019). Talwar et al. (2021) defined financial attitude as a psychological tendency that appears when people assess established financial management practices with differing degrees of acceptance or non-acceptance. According to these authors, an investor's financial attitude reflects their optimism, financial concern, level of financial security, level of deliberate thought, level of interest in financial matters, and need for precautionary saves.

Financial attitude plays a crucial role in shaping investment and financing decisions of individuals and business owners, particularly within the context of Small and Medium-Sized Enterprises (SMEs). Firstly, at individual level, the results of some findings indicate that the right financial attitude is very important to achieve better levels of individual behaviour finance (Çera et al., 2021). Hence, financial attitudes influence financial management behaviour in a favourable way. This means that people are aware of how they behave with regard to their finances, such as future planning, savings, and other financial planning (Baptista & Dewi, 2021). Zaki et al., (2020) posit that, students who have a good attitude towards their finances, of course they will also have good financial management behaviour and are responsible for managing their personal finances. Abeyrathna (2020) found that financial attitudes show a good relationship with personal financial management behaviour, according to the study. Then Ameliawati and Setiyani (2018) added that an individual's financial attitude affects how the individual manages his or her finances. Secondly, at corporate level, Eniola & Entebang (2017) assert that financial attitude has a significant role in the financial decision-making and financial circumstances of managers and owners of SMEs. In SMEs, where decision-making is often centralised in the hands of owners or managers, their financial attitude can directly impact business investment strategies, capital allocation, and long-term growth prospects. For instance, owners of SMEs with a positive financial attitude characterised by long-term planning, self-control, and risk awareness are more likely to make prudent investment decisions and avoid impulsive financial actions (Lusardi, 2019; Tiaskara et al., 2025; Cahyaningtyas et al., 2025). Potrich, Vieira, and Kirch (2015) found that entrepreneurs with a positive financial attitude were more consistent in their saving behaviour and investment planning, regardless of their education level. Similarly, Lim et al. (2018) highlighted that financial attitude significantly influenced risk-taking behaviour among Malaysian SMEs. Widjayanti (2025) showed that financial attitude mediates the effect of financial literacy on practical financial behaviours, including investment decisions, among Indonesian MSMEs. In the same vein, Tiaskara et al. (2025) and Cahyaningtyas et al. (2025) found that financial risk attitude an attitudinal component shapes how SMEs allocate capital and pursue investment opportunities when access to finance improves. In Nigeria, financial attitude was found to influence investment-supporting financial behaviours, including the uptake of formal financial services (Local Researchers, 2024). Fah and Molem (2024) found that financial attitude has a direct effect on investment decisions of SMEs. Eniola & Entebang (2017) on the other hand assert that financial attitude has a significant role in the financial decision-making and financial circumstances of managers and owners of businesses. Elihuruma and Asheri (2026) examine the influence of financial attitude on investment decision making among small and medium investors in Dodoma, Tanzania. The findings reveal a very strong positive relationship between financial attitude and investment decisions. According to the study, financial attitude significantly predicts investment decision making, explaining 76.5 percent of the variation in investment behaviour. The regression model was statistically significant, confirming that positive financial attitudes are associated with higher quality investment decisions. The study concludes that financial attitude is a critical determinant of investment decision making among SMEs. According to these authors, it is important to design targeted financial training programs that strengthen positive financial attitudes, promote long term investment orientation, and enhance confidence in financial decision making to improve SME investment outcomes.

H11: There is an influence of financial attitude on financial management of SMEs

2.3.2.2-Financial behaviour

Behaviour is an essential element of financial literacy; and arguably the most important. Financial literate is sought to be driven by financial behaviour. Indeed, financial behaviour is a study that studies how psychological phenomena affect financial behaviour. On the other hand, the study of how psychology affects financial decisions in individuals, economies, and organizations is known as behavioural finance. Amoah and Kwabena (2018) describes financial behaviour as having the ability to consider the cumulative effect on one's financial situation and to take the necessary decisions on cash management, preparation and budget planning. Hence, financial management behaviour is a determination, acquisition, allocation and use of financial resources in accordance with specified objectives. For instance, Atkinson and Messy (2012) observed positive financial behaviour, like carefully budgeting and maintaining financial stability, strengthens an individual's ability to make sound financial decisions, while negative behaviour, like heavily relying on credit and loans, undermines one's ability to do so. According to Banerjee et al. (2017), financial literacy has a favourable impact on financial awareness, which in turn enhances financial inclusion behaviour.

Several studies have shown an influence between financial literacy and behaviour in financial management, including research conducted by (Robb & Woodyard, 2011; Lusardi & Mitchell, 2011; Statman, 2005; Michaud, 2017). For instance, Robb and Woodyard (2011) prove that functional financial literacy will have a positive influence on financial behaviour, where someone will be able to manage or allocate their finances appropriately. Whereas, Lusardi & Mitchell (2011) found that behavioural factors, such as perceptions about the importance of financial literacy, satisfaction at a certain level on understanding financial literacy and the results obtained, would greatly affect level of financial management ability. Building good financial behaviour will reduce financial stress and better financial management of funds during financial crises (Shankar et al., 2022).

H12: There is an influence of financial behaviour on financial management of SMEs

2.3.2.3-Financial knowledge

One of the factors taken into consideration while choosing investments and structuring capital is knowledge of finance. It is interpreted that financial

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literacy is closely related to financial knowledge, where if an individual has a good financial literacy, he will be able to apply the knowledge he has in his investment and financial decisions making process. Therefore, financial knowledge measures the capacity to make sound investment and financing decisions (Baker et al., 2018). As a result, it is sought that financial knowledge accounts for business failure, and lack of financial knowledge results in inadequate money management, insufficient funds, or incorrect risk assessment. In managing finances, one needs to have a good understanding of financial knowledge so that they can use their income/money wisely according to their needs. It is understood that knowledge and understanding of financial concepts can help individuals in solving financial problems. Then the financial knowledge possessed is considered good if someone has mastered various things related to finance. Financial knowledge, according to Humaira & Sagoro (2018) is the mastery of several aspects of the financial world, including financial instruments and abilities, is referred to as their financial knowledge. Halim and Astuti (2015) stated that it is the capacity to comprehend, evaluate, and manage finances in order to make wise financial decisions and stay out of debt. Chen and Volpe (1998) stated financial knowledge was the understanding that a person has in terms of financial management in making financial decisions. Swiecka et al (2020) argue that financial knowledge is an understanding of financial concepts and procedures and the use of that understanding to solve financial problems. Meanwhile, Al-Kholilah and Iramani (2013) say that financial knowledge is a form of individual expertise in understanding things about the financial world.

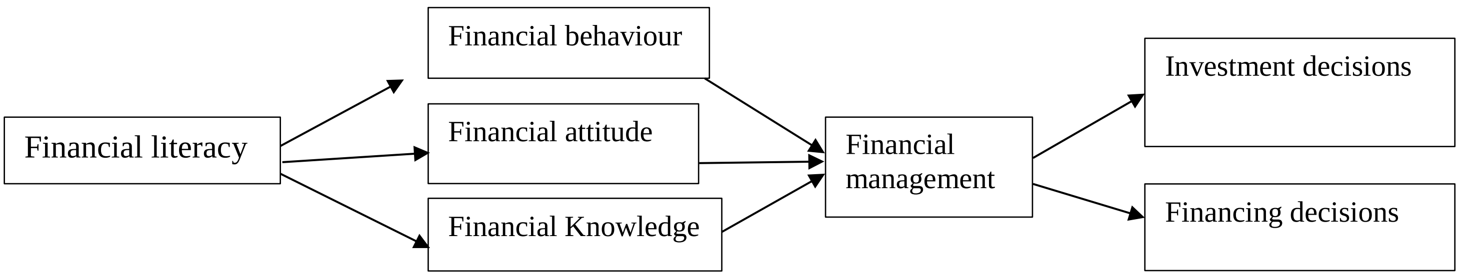
Financial knowledge and capabilities can be an essential strategic resource for the efficient allocation of finance and for greater financial stability and sustainability for SMEs (Tang & Seng, 2016). SMEs with a good understanding of financial knowledge and capabilities would be expected to be better placed than firms without those skills (Tang & Seng, 2016 Indeed, financial knowledge and capabilities can help SME owners to cover unpredictable eventualities and provide financial security (Botes & Sharma, 2017). Hastings et al. (2013) found that a minimal understanding of concepts like compound interest or savings plans can influence behaviours such as budgeting and retirement planning. As such, enhancing financial knowledge across populations is critical for fostering economic inclusion and stability. Comprehensive and continuous financial education starting at a young age and continuing into adulthood is essential to empower individuals to take control of their financial futures.

Several studies have established a direct link between financial knowledge and improved financial and investment decision-making. This research shows that there is a positive and significant influence of financial knowledge on financial management behaviour. For example, Chen and Volpe (1998) demonstrated that individuals with higher financial knowledge are more adept at managing investments, handling credit, and minimising financial risks. Muhongerwa and Tarus, (2025) investigates the effect of financial knowledge on the investment decisions-making among Small and Medium Enterprises (SMES) Managers in Kayonza District, Rwanda. A descriptive research design was employed, utilizing both quantitative and qualitative methods to collect data. The results revealed a strong positive correlation between financial knowledge and investment decisions ($r = 0.789$), indicating that higher financial knowledge is linked to more informed and effective investment choices. In the same vein, Humaira and Sagoro (2018), found a positive influence between financial knowledge on financial management behaviour in SMEs in the Batik Craft Center, Bantul Regency. In addition, Akhtar and Das (2019) found that financial Knowledge affects investing decisions. These results determine the extent to which investors must apply their knowledge while making investing selections. The same result is shown by Arifin (2017) research, which shows that there is a positive and significant effect of financial knowledge to financial management behaviour. The study states that the greater the knowledge a person has, the better his financial behaviour will be. Positive correlations have also been found between financial knowledge and financial management practices (Hilgert, Hogarth, & Beverly, 2003). Similarly, Fah and

Molem (2024) found that financial knowledge has a direct effect on investment decisions.

H13: There is an influence of financial knowledge on financial management of SMEs

Conceptual framework



Source: Author (2026) from review of literature

2.3-THEORETICAL BACKGROUND

Financial literacy is a critical skill that enables individuals to make informed financial decisions. Various theories have been proposed to understand the components of financial literacy and its impact on financial management. These theories include;

2.3.1-Human Capital Theory (HCT)

According to this theory, the skills, knowledge, and experience possessed by individuals are as valuable as physical capital in contributing to economic productivity. Over time, the theory evolved to recognise that investment in education and training not only enhances individual productivity but also drives organisational growth and societal prosperity. As a result, human capital is now widely seen as an essential factor in decision-making and economic success. HCT suggests that individuals who invest in their education and skill development are better equipped to make informed choices, thus enhancing both personal and organizational outcomes. At its core, Human Capital Theory posits that the knowledge, skills, and abilities of individuals contribute directly to their economic productivity.

In the context of Small and Medium-sized Enterprises (SMEs), financial literacy is considered an integral part of human capital. For these enterprises, financial literacy is not just a skill but a core component of human capital that directly influences the sustainability and growth of the business. Financially literate entrepreneurs are more adept at analysing financial data, managing risks, and allocating resources effectively. Additionally, HCT highlights that SMEs with educated management are more inclined to make long-term strategic decisions that promote business sustainability. This makes financial literacy a crucial aspect of human capital, enabling SMEs to thrive in a competitive and uncertain market environment. The more financially literate an entrepreneur is, the better equipped they are to make strategic investments, assess market conditions, and manage financial risks. This study aligns with HCT, which suggests that financial literate skills is a human capital resource susceptible to improve financial management decisions of SMEs leading to better outcomes for businesses and economies.

2.3.2-Theory of Planned Behaviour (TPB)

The Theory of Planned Behaviour (TPB) was developed by Icek Ajzen in 1991 as an extension of the Theory of Reasoned Action, which provides a robust psychological framework for understanding how attitudes, social norms, and perceived behavioural control collectively influence intentions and actual behaviours. TPB was introduced to better understand behaviours that individuals intend to perform but may not fully control due to external factors. The model has since been widely applied in various fields, including health, education, and increasingly, financial behaviour. TPB posits that behaviour results from deliberate planning, shaped by three components: attitudes toward the behaviour, subjective norms, and perceived behavioural control. Unlike the earlier Theory of Reasoned Action, TPB incorporates perceived behavioural control, acknowledging that individuals' sense of control over their actions strongly affects their intentions and behaviours. This comprehensive approach makes TPB especially relevant for analysing financial decision-making, which requires knowledge, positive attitudes, and a sense of empowerment to translate intention into action (Hasan et al., 2018; Lusardi & Mitchell, 2014). However, one of the key strengths of TPB is its integration of cognitive, social, and control related factors to explain behaviour. It recognises that knowledge alone does not suffice to change behaviour without positive attitudes and perceived control, making it valuable for studying complex behaviours such as investment decisions among SMEs (Lambert et al., 2024; Cahyaningtyas et al., 2025). Additionally, TPB offers a clear framework for interventions by identifying attitudes, norms, and control as targets to influence behaviour.

According to Muhongerwa & Tarus (2025), TPB provides a psychological foundation for analysing how financial literacy influences investment and financing decisions among SME managers. These psychological factors enhance their ability to make sound and effective investment choices, making TPB a useful framework for interpreting their financial behaviour in the context of business sustainability and growth. Accordingly, this study utilises TPB to examine the interplay between financial knowledge, attitudes, and behaviour in shaping financial management decisions among SMEs. By applying TPB, the study captures not only whether SMEs possess financial literacy but also how their attitudes and confidence influence their investment and financial decisions. Explicitly, these findings justify the use of TPB as the theoretical foundation for this study, given its proven relevance across diverse developing economies and SME contexts (Lambert et al., 2024; Hasan et al., 2018; Lusardi and Mitchell, 2014; Janor et al., 2016; Widjayanti, 2025, Tiaskara et al., 2025; Cahyaningtyas et al., 2025). This study aligns with prediction of the theory of planned behaviour, because financially literate managers are more likely to form positive attitudes toward investment, perceive stronger social support for prudent financial management, and feel greater control over financial decisions. These psychological factors enhance their ability to make sound and effective investment and financing choices, making TPB a useful framework for interpreting their financial behaviour in the context of business sustainability and growth (Muhongerwa & Tarus, 2025).

3-METHODOLOGY

This study employed a descriptive and correlational research design to investigate the effect of financial literacy on financial management of SMEs in Douala. The researchers used a purpose sampling technique to sample SMEs. Data were collected using survey questionnaires with five point Likert's scale items. Data analysis involved correlation and multiple regression analysis. The sample size consisted of 150 SMEs operating in both service and manufacturing sectors in the city of Douala. Cochran (1977) sampling technique for formulating sample size when population is infinite was used to estimate a sample size out of the study population. The Cochran (1977) formula is given by:

$$n = \frac{z^2(p)(q)}{e^2} \quad \text{……………………………………….. eqn (1)}$$

Where,

- n =Sample Size
- z = Selected critical value of desired confidence level
- p = is the estimated proportion of an attribute that is present in the population
- q = 1 - p

- e^2 = Margin of error (10%)

Since we want to calculate a sample size of a large population whose degree of variability is not known, we assume maximum variability, which is equal to 50% (p=0.5) and taking 90% confidence level with ±10% precision, the calculation for the required sample size was as follows:

- p = 0.5
- q = 1- p = 1-0.5 = 0.5
- e = 0.10
- z = 1.96

Substituting into the formula we have:

$$\mathrm{n} = \frac{(1.96)^2(0.5)(0.5)}{(0.10)^2} = 163$$

163 questionnaires were administered. However, 150 questionnaires were exploited in the final phase of the study. These questionnaires were answered correctly.

3.1-Measurement of variables

Independent variable of the study is financial literacy captured by financial attitude, financial behaviour, and financial knowledge. The explanatory variable is financial management, which is proxied by both investment and financing decisions of SMEs. These variables use questions with a Likert's scale with five categories consisting of 1-strongly agree, 2-agree, 3-neutral, 4-disagree and 5-strongly disagree.

3.1.1-Financial literacy

Financial literacy was adopted from (Atkinson and Messy, 2013) whereby there is a question on financial knowledge, financial attitude and financial behaviour.

3.1.2-Financial Management

Proxies of financial management of SMEs are financing decisions and investment decisions.

Table 1: Measurement of variables

Variables and measurability	Scale
Independent variable: Financial literacy (FL)	
Financial knowledge (Fk)	
Understanding of financial concepts and procedures and the use of that understanding to solve financial problems.	Likert's scale
Financial attitudes (FA)	
Apply personal view or assessment of an object of financial problems.	Likert's scale
Financial behaviour (FB)	
Determine the acquisition, allocation and use of financial resources in accordance with specified objectives.	Likert's scale
Dependent variable: Financial management (FM)	
Investment decision (IVD)	
Evaluate the financial attractiveness of actual projects and choosing the most successful ones. Using capital budgeting techniques or method to evaluate the feasibility of	Likert's scale

project(s). Considering tax implications of investments before making a decision. Understanding the importance of diversification in reducing investment risk. Appraisal of incidence of interest rates on investment returns and borrowing costs.	
Financing decision (FID)	
Use the source of funds with less cost of capital to finance activities. Comparing cost and return analysis in financing decisions. Understanding the impact of cost of capital in financing decisions. Understanding the concept of simple and compound interest in financing decisions.	Likert's scale

Source: Author (2026)

3.1.3-Model specification

Multiple regression is used to model the relationship between financial literacy and financial management of SMEs. Since in this study we examine the effect of financial literacy (X), on financial management (Y), the multiple regression model is written as follows:

$FM = \beta_0 + \beta_1 FK + \beta_2 FA + \beta_3 FB + \varepsilon$

Where,

FM = Financial management

FK = Financial knowledge

FA = Financial attitude

FB = Financial behaviour

β_0 = Constant term

ε = Error

3.1.4-Reliability and validity

To obtain good research results, the data used must be good too, for that research instrument testing is carried out. The test instruments used are validity and reliability tests.

Table 2: Result of reliability and validity

Variables	**Cronbach's Alpha coefficient**	**Cronbach's Alpha Based on Standardized Items**
Financial management	0.822	0.893
Financial knowledge	0.835	0.811
Financial attitudes	0.833	0.834
Financial behaviours	0.764	0.863

Data analysis (2026)

The reliability of research instrument is assessed by Cronbach's alpha coefficient. Indeed, the alpha coefficient of Cronbach can provide the best indication to determine reliability and validity of measuring instruments. Hair et al. (2006) detailed the level of reliability and validity as follows: 0.6 or above is average, over 0.7 is better than normal, more than 0.8 is good and 0.9 is very good. Accordingly, if the items in the variable show a value less than 0.6, then those items should be removed from the questionnaire (Sekaran & Bougie, 2010). From the table above, both Cronbach's alpha coefficients of financial management, financial knowledge, financial attitudes, and financial behaviours resulted in scores exceeding the required threshold of 0.60, confirming high reliability and validity of research instrument.

3.1.5-Tests of multicollinearity and normality

Multiple regression warrants testing initially some basic assumptions prior to the analysis. As a result, tests of multicollinearity and normality were conducted to validate the assumptions of the statistical instrument. The Kolmogorov-Smirnov and Shapiro-Wilk tests were used to assess data normality, while multicollinearity was checked using the Variance Inflation Factor (VIF) to ensure no significant overlap among the independent variables.

4- RESULTS AND DISCUSSION

4.1-Characteristics of sampled SMEs

Table 2: Descriptive result of characteristics of sampled SMEs

Description	Total	Percentage
Number of sample	150	
Gender:		
Female	65	43.33
Male	85	56.67
Size (employees)		
Below 5 (very small)	60	40
5-20 (small)	50	33.33
21-100 (medium)	40	26.67
Education :		
Primary	20	13.33
Secondary	30	20
Bachelor degree	50	33.33
Master degree	30	20
Doctoral degree	20	13.33
Age :		
18-23 years	15	10
24-29 years	30	20
30-35 years	40	26.67
36-41 years	23	15.33

42-47 years	12	8
48-55 years	24	16
Above 55 years	6	4
Number of years in activities		
3-5 years	65	43.33
6-8 years	55	36.67
Above 8 years	30	20
Profession:		
Employed	99	66
Self-employed	51	34
Domicile:		
Urban	150	100
Rural		
Sector		
Service	84	56
Manufacturing	66	44

Data analysis (2026)

Table 2 above shows characteristics of respondents used in the study. Females represent 43.33 %(65), and males 56.67% (85) of the sampled SMEs showing a slight difference in gender. In terms of size measured by number of employees, very small (micro) enterprises with less than 5 employees represents 40 %(60), small enterprises with 5-20 employees represents 33.33 %(50), and medium-sized enterprises with 21-100 employees represents 26.67% (40) of the sampled SMEs. Very small enterprises dominate the sampled SMEs. As for educational level, there is an equal percentage (20%) of both secondary and master levels, primary school and doctorate degree levels have 13.33%, and majority of sampled SMEs hold a bachelor degree (33.33%). In order of magnitude, the highest age group is 30-35 years (26.67%), 24-29 years (20%), 48-55 years (16%), 36-41 years (15.33%), 18-23 years (10%), 42-47 years (8%), and above 55 years (4%). It is concluded that young individuals within the age 30-35 years are actively involved in business. In case of the number of years in operation, 43.33% are operating for 3-5 years, 36.67% are operating for 6-8 years, and 20% are operating for more than 8 years. This result shows that the majority of SMEs are nascent with at most five years of existence. In terms of occupation, 66% are employed, meanwhile, 34% are self-employed. The sampled SMEs operate in the city of Douala. Majority of the sampled SMEs (56%) operate in the service sector, while 44% have their activities in the manufacturing. This shows the high concentration of SMEs in the service sector. This could be explained by huge capital required to invest in the manufacturing sectors.

4.2-Correlation Analysis

The findings of the correlations between the independent variable and the dependent variable are summarised and presented in Table 2

Table 3 – Correlation between independent variable and dependent variable

	Pearson correlation	Financial attitude (FA)	Financial behaviour (FB)	Financial knowledge (FK)	Investment decisions (IND)	Financial decisions (FID)
Financial attitude (FA)	Pearson correlation	1				
	Sig. (2 tailed)					
	N	150				
Financial behaviour(FB)	Pearson correlation	0.228	1			
	Sig. (2 tailed)	.0552				
	N	150				
Financial knowledge (FK)	Pearson correlation	0.126	0.175	1		
	Sig. (2 tailed)	.0545				
	N	150				
Investment decisions(IVD)	Pearson correlation	0.776**	0.658**	0.824**	1	
	Sig. (2 tailed)	.000				
	N	150				
Financial decisions(FID)	Pearson correlation	0.745**	0.674**	0.852**	0.835**	1
	Sig. (2 tailed)	.001				
	N	150				

Data analysis (2026)

Table 3 shows correlation analysis between independent and dependent variables. The correlation analysis reveals a strong positive correlation between financial attitude and investment decisions, as indicated by Pearson correlation coefficient of 0.776, which is statistically significant (0.000 < 0.05). In addition, there is a strong positve correlation between financial attitude and financial decisions, as indicated by pearson correlation coefficient of 0.745, which is statistically significant (0.000<0.05). Morever, correlation analysis reveals a strong positive correlation between investment and financial decision, as showed by the pearson correlation coeffcients of 0.658 and 0.674 respectively, both statistically significant (0.000< 0.05). Furthermore, financial knowledge is found to have a strong positive correlation between investment decisions and financial decisions, with respective pearson correlation coefficients of 0.824 and 0.852, which is staistically significant (0.000<0.05). Accordingly, SMEs with higher levels of financial literacy tend to make better or informed financial and investment decisions. However, there exists a weak and insignificant correlation among dependent variables, indicating low effect of collinearity among them. In conclusion, based on the correlation analysis, financial literacy is sought to shape financial management of SMEs.

4.3-Regression analysis

A multiple regression analysis was performed in this section to identify the predictor and its contribution towards the criterion. It aims to determine the prediction of a single dependent variable from a group of independent variables. The multiple regression analysis was performed with all the assumptions complied with. Table 3 shows the model summary of the results.

Table 4 – Model summary

Model summary[b]				
Model	R	R square	Adjusted R-Square	Std. Error of the estimate
1	.745[a]	.555	.550	.358

a. Predictors : (Constant), Financial attitude, financial bahaviour, Financial knowledge

b. Dependent variable : Investment decisions, financing decisions

Data analysis (2026)

Table 4 above summarises the predictive strength of the model. From the table, it is observed that variability in financial management is partially explained by financial literacy. The value of R^2 (0.555) shows that financial literacy accounts for 55.50% variation in financial management. This suggests a strong predictive relationship, highlighting that SMEs with greater financial literacy are more likely to make informed and effective financial management decisions. The adjusted R Square (0.550) confirms the model's robustness by accounting for the number of predictors, and the standard error of the estimate (0.358) indicates a relatively low level of error in the model's predictions.

Table 5 – Summary of ANOVA results

Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	36.330	3	12.514	113.283	.000[b]
	Residual	35.557	147	.132		
	Total	71.887	150			

a. Dependent variable : Investment decision, Financing decision

b. Predictors : (Constant), Financial attitude, Financial bahaviour, Financial knowledge

Data analysis (2026)

The ANOVA results in Table 5 indicate that the regression model is statistically significant. The high F-value of 113.283 with a significance level (p-value) of .000 demonstrates that the model provides a good fit for the data and that financial literacy significantly predicts financial management of SMEs, therefore, reinforcing its importance as a predictor in the regression model.

Table 6 – Regression coeffiicents

Model	Variables	Unstandardised coefficients		Standardised coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.519	.242		2.165	.003
	Financial attittude (FA)	.486	.053	.514	2.577	.000
	Financial behaviour (FB)	.375	.051	.435	3.063	.001
	Financial knowledge (FK)	.560	0.59	.576	3.466	.000

Data analysis (2026)

The regression coefficients in Table 6 reveal that financial attitude, financial behaviour, and financial knowledge have a statistically significant impact on financial management of SMEs. The unstandardised coefficient (B) for financial attitude is .486 with a standard error of .530, and the standardised beta coefficient is .514. The positive sign indicates that financial attitude positively affects both investment and financing decisions of SMEs. This result is found to be significant since financial attitude has a t-value of 2.577 and a p-value of .000<.05. Therefore, hypothesis H11, which states that financial attitude has an influnce on financial management of SME is supported. Additionally, financial behaviour has unstandardised coefficient (B) of .375 with a standard error of .051, and the standard beta coefficient of .435 indicating a positive relationship between financial attitude and financial management of SMEs. This result is found to be statistically significant since financial attitude has a t-value of 3.063, and signficance of .001 < .05. Thus, hypothesis H12 stating that financial behaviour has an influence on financial management of SME is validated. The unstandardised coefficent (B) for financial knowledge is .560 with a standard error of .059, and the standard beta coefficient is .576, which reveals a poitive relationship between financial knowledge and investment and financing decisions of SMEs. The impact is sought to be statistically significant since financial knowledge has a t-value of 3.466, and significance of 0.000 < 0.05. This implies that level of financial knowledge influences positively and significantly financial management of SMEs. Thus, SMEs with knowledge in finance make better informed investment and financial management decisions. As a result, hypothesis H13 is validated, which states that financial knowledge has an influence on financial management of SME. Financial knowledge is found to influence the most investment and financing decisions of SMEs. Furthermore, the constant value of .519 (sig. = .003<.05) with standard error of .242 reveal that whenever financial literacy is held constant, financial management has a baseline of .519, which is statistically significant. Overall, financial literacy significantly influences financial management of SMEs, which implies that hypothesis H1 stating an influence of financial literacy on financial management of SME is supported by the result of this study.

4.4-DISCUSSION OF RESULTS

Firstly, financial knowledge is found to influence positively and significantly financial management of SMEs. It implies that financial management of SMEs increases with acquired financial knowledge. Hence, financial literate SMEs apply financial notions in making investment and financial decisions. In other words, this implies that, both investment and financing decisions are influenced by the financial knowledge of owners/managers of SMEs. Therefore, owner/managers of SMEs use financial knowledge to make careful financing and investing decisions. These results are in line with empirical findings of (Donggo et al., 2024; Perry & Morris, 2005; Arifin, 2017), which state that there is a positive and significant influence of financial knowledge on financial management of SMEs. It can be concluded that owners/managers with financial knowledge possess necessary skills to properly manage their activities. Therefore, financial knowledge is important for SMEs to acquire proper financial management skills. Secondly, financial attitude is found as well to significantly affect financial management of SMEs. This result shows that financial attitude enhances financial management of SMEs. For instance, attitude towards financial problems leads to making effective financial management decisions. Therefore, financial attitudes shape investing and financing decisions of SMEs. This result is in line with research conducted by Nguyen & Doan (2020), Prihartono & Asandimitra (2018), and Herawati et al (2018) which state that there is a positive and significant influence of financial attitudes on financial management of SMEs. It can be concluded that owner/manager of SME who has good financial attitude will be wiser in making financial decisions. Thirdly, financial behaviour is found to have a significant and positive effect on financial management SMEs. It implies, SMEs behave positively in making financial management decisions. Therefore, making investing and financing decisions depend on the financial behaviour of SMEs. This result is in line with research conducted by Farida et al (2020) which states that there is a positive and significant influence of financial behaviour on financial management of SMEs. It can be concluded that financial behaviour make it easier for SMEs to financially manage their affairs, because in the process of making transactions become more effective and efficient. If SMEs behave financially in managing financial issues, it implies that, they determine the acquisition, allocation and use of financial resources in accordance with specified objectives.

In conclusion, the overall results show that financial literacy has a significant effect on financial management which is in conformity with the work of Molosiwa & Holland (2025) and Fah and Molem (2024) who hold that financial literacy has an effect on financial management of SMEs. It implies that owner-managers with a high level of financial literacy has an understanding of the risks he faces so that in making decisions he is careful with the basic knowledge he has (Fah & Molem, 2024). Therefore, the better the financial literacy, the better the quality of financial management decisions taken (Lusardi & Mitchell, 2019). On the otherhand, this result is in confirmity with theories of human capital and planned behaviour. For example, the skills, knowledge, and experience possessed by SMEs are valuable in financial management. Additionally, financially literate managers are more likely to form positive attitudes toward investment, perceive stronger social support for prudent financial management, and feel greater control over financial decisions.

5-CONCLUSION

The aim of this study was to investigate the influence of financial literacy on the financial management of SMEs, using correlational and regression analyses. The result revealed that financial literacy captured by financial behaviour, financial attitude, and financial knowledge positively and significantly influence financial management of SMEs. Therefore, by being financially literate SMEs make informed financing and investment decisions. Literally, the high failure rate of SMEs is attributed to poor and/or lack of financial management. As a result, for sustainability purpose SMEs should acquire financial literacy skills for them to effectively manage their finances. Accordingly, to improve financial management competence of SMEs, it is important to organise workshops, training programs, conferences, and forum to discuss finance related issues. By so doing, SMEs will acquire financial knowledge, financial behaviour, and financial attitude fostering management of finance. Moreover, the basic financial subjects need to be included in the lower-level education curriculum. In the same line, it is highly recommended that SMEs participate in financial education regularly to keep them well informed and equipped with personal ways of managing their finances to ensure better planning and execution of enterprises that will inevitably lead to increasing and sustaining earnings. Improving financial literacy through education can positively impact both financing and investment decisions-making of SMEs. By actively participating in financial education programs, SME owners can enhance their understanding of financial concepts and strategies, which can guide them to better planning and execution of business ventures. SME owners who actively engage in financial education will likely develop personalised ways of managing their finances, aligning with their unique characteristics and preferences. However, despite the empirical contribution of this study, it is subject to some limits. The study focused solely in the city of Douala, further studies should extent to other regions of Cameroon in order to capture the importance of contextual differences. In addition, this study focused only on two aspects of financial management, precisely, investing and financing decisions. Meanwhile, so many components constitute financial management. It is important that further findings extent this study by including other components of financial management, and investigate the effects of financial literacy on them.

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