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THE EFFECT OF FINANCIAL LITERACY OF OWNER-MANAGER AND FIRM PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN SRI LANKA

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Abstract

This study evaluates the impact of owner-managers financial literacy on firm performance in small and medium enterprises (SMEs) in Sri Lanka. It particularly seeks to answer whether owner-managers accounting literacy, debt management literacy, banking services literacy, and financial planning and budgeting literacy greatly influence SME firm performance. The quantitative research design was used by administering a structured questionnaire face-to-face to 250 respondents who were representing different SMEs in Sri Lanka. The measurement scales were subject to testing reliability and validation after guidelines in this area. The proposed hypotheses were tested using structural equation modelling (SEM) with 5000 bootstrap subsamples. The result indicates that financial planning and budgeting literacy, debt management literacy, and banking service literacy have statistically significant positive impacts on the firm performance of SMEs. However, while accounting literacy was hypothesized to influence firm performance positively, the statistical analysis did not support such an effect. The above results imply that (1) SME owners and managers need to concentrate their business on developing financial literacy in financial planning, budgeting, debt management, and banking services to optimize resource use and raise competitiveness. (2) It focuses on how the policymakers and regulatory institutions must develop interventions and programs to enhance financial education and training among SME stakeholders. (3) financial institutions and consultancy firms must design their products, services, and advice to address the dimensions of financial literacy that are most likely to lead to SME success.

Keywords: financial literacy, SMEs, firm performance, Sri Lanka

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Introduction

The fundamental relationship between financial literacy and economic growth has gained substantial scholarly study in recent decades. Economic indicators, such as national income, employment rates, and entrepreneurial activity, are intrinsically entangled with the financial decision-making capacities of people and business organizations. This relationship is evident in the context of small and medium firms (SMEs), which represent the backbone of diverse economies internationally (Ren et al., 2015). Endowed with the capacity to promote job creation, innovation, and fair distribution of economic opportunities, SMEs are significant drivers of sustainable development (Heenkenda et al., 2022). However, their development trajectory and long-term survival depend upon many elements, notable among them being the financial competency of their owner-managers (Eniola & Entebang, 2017).

Financial literacy, conceptualized as a constellation of knowledge, skills, and attitudes about financial concepts and decision-making, has emerged as a critical determinant of firm performance across various contexts (Chu et al., 2016).. Empirical research confirms the beneficial effect of financial literacy on variables such as profitability, investment efficiency, and risk management (Chu et al., 2016; Ye & Kulathunga, 2019). Conversely, weakening financial literacy has been connected with bad firm practices, resource misallocation, and heightened vulnerability to economic shocks (Hussain et al., 2018; Tian et al., 2020). Small and medium enterprises (SMEs) are widely acknowledged as the backbone of the Sri Lankan economy, accounting for more than 75% of total enterprises, providing 45% of employment, and contributing 52% to the gross domestic product (GDP) (Abeyrathna, 2021; Dasanayaka, 2011; Kulasinghe et al., 2018). However, a crucial component affecting these SMEs' profitability and growth is their owner-managers financial literacy levels. In Sri Lanka, a study shows a concerning low level of financial literacy among people, with just 35% deemed as financially literate (Premarathne & Abeysekera, 2020). This lack of financial understanding has been associated with bad investment decisions among Sri Lankans (Tennekoon & Liyanage, 2021).

Knowing of this crucial function of financial literacy in strengthening SME performance and the nation's economic fabric, the present study proposes to evaluate the effect of owner-managers financial literacy on SMEs' firm performance in Sri Lanka. Specifically, the goals are to explore whether owner-managers literacy in accounting, debt management, bank services, and planning and budgeting substantially impact SME firm performance. Studying the influence of the financial literacy of owner-managers on SME success in Sri Lanka is relevant for various reasons. Financial literacy is crucial in helping owner-managers make educated financial decisions, know their financial obligations, and operate their firms successfully (Agyapong & Attram, 2019). Research has revealed that financial literacy is vital to increasing SME performance through sustained competitive advantage (Chu et al., 2016). Understanding the degree of financial literacy among SME owner-managers and its influence on company performance is vital for the growth and success of SMEs in Sri Lanka. Moreover, studying the impact of financial management practices on SME performance from the perspective of the Legitimacy Theory gives vital insights into how financial decisions and practices influence the overall performance of SMEs in Sri Lanka (Tharmini & Lakshan, 2021). When linked with a high degree of financial literacy among owner-managers, financial management approaches can contribute to higher profitability and sustainability for SMEs (Ismanto & Pebruary, 2022). Therefore, by researching the link between financial literacy, financial management practices, and SME performance, academics may offer key ideas and tactics to boost SMEs' financial capabilities and performance in Sri Lanka.

Literature review:

Financial Literacy and Individual Financial Well-being

Financial literacy has emerged as a critical determinant of individual financial well-being, encompassing investment choices, retirement preparedness, and economic empowerment. In the Sri Lankan context, studies have highlighted the low levels of financial literacy among adults, with only 35% classified as financially literate (Premarathne & Abeysekera, 2020). This deficit has been linked to suboptimal investment decisions (Tennekoon & Liyanage, 2021). Researchers have recognized the importance of financial literacy for marginalized groups and the need to enhance economic empowerment through improved financial capabilities (Chaulagain & Devkota, 2018). Initiatives such as tailored financial literacy programs delivered through microfinance institutions have been proposed as potential solutions (Premarathne & Abeysekera, 2020).

Financial Literacy and Firm Performance

Financial literacy has consistently been a critical factor influencing firm performance across various sectors and contexts. Empirical evidence underscores the positive impact of financial literacy on measures such as profitability, investment efficiency, and risk management (Chu et al., 2016; Liu et al., 2020). Enhanced financial literacy among managers has been associated with overall performance improvements (Mabula & Han, 2018), while deficiencies in financial acumen have been linked to suboptimal business practices, resource misallocation, and heightened vulnerability to economic shocks (Daud et al., 2018; Gutter & Saleem, 2005). Specific studies have highlighted the significance of financial literacy for business owners, demonstrating its influence on firm performance (Agyei, 2018). Furthermore, research has underscored the positive relationship between financial literacy and business continuity, sustainability, and performance across sectors such as the food and beverage industry (Piyani & Chandrarin, 2023).

Financial Literacy and SME Performance

Financial literacy significantly enhances the performance of SMEs. Numerous studies have highlighted the role of financial literacy in influencing a wide array of firm performance metrics, such as profitability, access to finance, entrepreneurial orientation, and the introduction of new products (Burchi et al., 2021; Liu et al., 2020; Tian et al., 2020). Financial literacy is identified as a pivotal factor for economic growth and the development of SMEs, influencing firm practices leading to improved performance and sustainability (Eniola et al., 2019; Kaur & Bansal, 2020; Mabula & Han, 2018; Rupinder Kaur Gill, 2018). However, it has also been noted that inadequate financial management practices due to a lack of financial literacy, adversely impact SME performance (Thandiwe & Manzini, 2022). The prevailing consensus in the literature is that fostering financial literacy among SME owners and managers is essential for sustainable growth, effective decision-making, and improved firm performance (Kaur & Bansal, 2020).

Theory

RBT Theory offers a sound theoretical perspective for examining the relationship between financial literacy and the performance of SMEs. According to RBT theory, a firm's competitive edge and performance are derived from valuable, rare, inimitable, and non-substitutable resources. Financial literacy, as such a resource, significantly enhances SMEs' capabilities in financial decision-making, resource management, and cash flow control, leading to improved access to financial services and, consequently, better performance and competitiveness (Eniola (Eniola & Entebang, 2015; Kaur & Bansal, 2020; Mabula & Han, 2018; Ye & Kulathunga, 2019). Financial literacy's inimitability and non-substitutability are attributed to SME owner-managers unique knowledge, skills, and experiences, making it difficult for others to replicate or replace. Developing financial literacy through education, vocational training, and practical experience further emphasizes its inimitable nature (Kaiser & Menkhoff, 2017). As a strategic resource, financial literacy enables SMEs to make informed financial decisions, optimize resource use, minimize risks, and significantly enhance financial performance (Ye & Kulathunga, 2019). This aligns with RBV's assertion that valuable, rare, inimitable, and non-substitutable resources underpin a firm's competitive advantage and superior performance (Barney, 1991).

Hypothesis Development:

Financial planning and budgeting skills are key operational factors for SMEs. Substantial evidence shows that financial literacy leads to higher performance in SMEs. For instance, Kimunduu et al. (2016) found a significant positive relationship between financial literacy and success in SME companies. Chepngetich (2016) highlighted that literacy in loans and budgets has a noticeable impact on SME performance. Agyei (2018) demonstrated that education enhances financial literacy levels, which in turn can improve SME performance. Eniola and Entebang (2015) developed a framework highlighting the critical role of financial literacy in fostering prosperity among SMEs. Ye and Kulathunga (2019) also emphasized that financial literacy contributes to value creation in SMEs, leading to sustainable success. These findings underscore the importance of financial planning and budgeting skills for SMEs' success.

H1 – Financial planning and budgeting literacy significantly and positively affects the performance of SMEs.

Empirical evidence from various studies confirms that a high level of financial literacy is associated with better business performance in SMEs. Mustafa et al. (2022) introduced a theoretical model suggesting a positive correlation between SMEs' financial literacy and their performance, highlighting the direct relationship between financial literacy and business outcomes. Gusman et al. (2021) observed that financial literacy among SME managers positively impacts SME performance, indicating that a thorough understanding of financial information improves business results. Ismanto and Pebruary (2023) found that financial literacy, debt literacy, and financial experiences positively influence SME performance, contributing to company success. Eniola and Entebang (2017) noted that financial literacy is crucial for SME owners and managers in making informed financial decisions. Furthermore, Agyei (2018) reiterated the positive effect of financial literacy on SME performance, emphasizing the significance of knowledge-based outcomes for firms in the small and medium sectors.

H2. Debt management literacy significantly and positively affects the performance of SMEs.

Accounting knowledge has been identified as a crucial determinant of success for small and medium-sized enterprises (SMEs). Surenggono and Djamilah (2022) underscore financial knowledge's substantial impact on adopting management accounting practices within SMEs, particularly accounting principles. This adoption has positively affected firm performance, highlighting a robust relationship between accounting knowledge and organizational outcomes. Further supported by Eniola et al. (2019), organizational culture enriched with accounting skills positively influences SMEs' financial performance through competitive strategies. Ghofirin and Wahyuningtyas (2021) demonstrated that a deeper understanding of accounting principles among entrepreneurs enhances the use of accounting information, leading to improved organizational performance. Ahmad and Al-Shbiel (2019) also noted the positive impact of integrating knowledge management with accounting information systems on SME performance, emphasizing the importance of accounting knowledge in leveraging technological tools for corporate success. Based on empirical evidence and theoretical frameworks, the hypothesis is that accounting knowledge is favourably associated with company success among SMEs.

H3 – Accounting knowledge significantly and positively affects SME performance.

Banking services literacy is a critical factor in SME performance, with research evidencing the positive effects of financial services literacy across various aspects of firm performance. Maziriri et al. (2018) showed that literacy in self-service banking and financial literacy significantly impacts business performance in rural SME environments, highlighting the importance of financial services literacy for organizational achievements in SMEs. Umboh and Aryanto (2023) found that digital literacy, particularly in using financial service platforms, substantially boosts SME performance, indicating that knowledge of technology, especially related to financial services, is essential for enhancing SME performance. Hakim and Ningsih (2020) also observed that higher financial literacy regarding banking services leads to better access to financial institutions for SME owners. This finding aligns with Cole et al. (2009), who noted that improved financial literacy correlates with increased usage of banking services. The resource-based view (Barney, 1991) and the knowledge-based view (Grant, 1996) support the notion that banking services literacy is a valuable resource that can facilitate competitive advantage and superior performance for SMEs.

H4 – Banking services literacy significantly and positively affects SME performance.

Methodology

This study focuses on SMEs in Sri Lanka. It is a research design in which the study is quantitative, and data was drawn from a well-structured questionnaire. The questionnaires were distributed among the sample respondents who were owner-managers of SMEs. The major parts of the questionnaire were two: Section 1 sought the demographic information of the respondents on issues bordering gender, age, job position, educational level, business type, organizational role, and annual turnover. A very high level of sensitivity was maintained concerning the respondents' privacy, personal data collection, and sensitivity. Section II presented the independent and dependent variables being investigated. Twenty-three questions were guided by these four independent variables: accounting literacy, banking services literacy, debt management literacy, financial planning literacy, and budgeting literacy. Furthermore, five questions were based on the dependent variable in seeking to measure the firm performance of SMEs. The seven-point Likert scale, from "strongly disagree" to "strongly agree," assessed the independent and dependent variables.

Rigorous procedures were undertaken to ensure the reliability and validity of the measurement scales. Internal consistency was assessed using Cronbach's alpha and composite reliability coefficient, which tests the consistency among items measuring a given construct (Hair et al., 2019). Convergent validity measures how well items converge in measuring one construct, which was tested using the average variance extracted (AVE) values (Fornell & Larcker, 1981). Discriminant validity was also conducted through the Heterotrait-Monotrait (HTMT) ratio criterion (Henseler et al., 2015). The study used the SEM technique to test the hypothetical relations among the constructs of financial literacy and the components of firm performance among SMEs. Special emphasis was used on the Partial Least Squares Structural Equation Modeling (PLS-SEM) (Hair et al., 2019). Analysis under this model was done using SmartPLS software (Ringle et al., 2015). Test for the parameters and hypotheses were based on path coefficients, t-statistic, and p-value between the estimated subsampling of 5000 bootstraps in search of significance levels. In other words, path coefficients showed the magnitude and direction of such relationships between latent variables, while t-statistics and p-values statistically represented such relationships' significance (Hair et al., 2019).

Findings

Demographic Profile:

The demographic profile of respondents is presented in Table 1. The respondents were 250 in number, picked from Small and Medium-Sized Enterprises (SMEs), representing both genders almost equally (53.2% male and 46.8% female). A huge percentage (57.2%) of the respondents were aged 36-45 years years, followed by 26-35 years (22%), below 25 years (18.8%), and above 45 years (2%). As for educational level, 53% had fulfilled secondary education, 24% had vocational qualifications, 16% had completed undergraduate education, and 7% had professional qualifications. The largest proportion of owner-managers were Chief Executives (37.0%, n = 93), followed by Founders/Entrepreneurs (30.0%, n = 76), Proprietors/Sole Owners (22.0%, n = 56), and Partners/Co-Owners (10.0%, n = 25), reflecting diverse roles within SMEs. Such diversity in characteristics of the respondents enhances the generalizability of the study's findings and helps better understand the effect financial literacy has on the firm's performance within the SME context.

Table 1: Information of the respondent

Factor		Frequency	Percentage
Gender	Male	133	53.2%
	Female	117	46.8%
Age	Below 25	47	18.8%
	26 – 35	55	22.0%
	36 – 45	143	57.2%
	Above 45	5	2.0%
Educational Attainment	Secondary Education	132	53.0%
	Graduates	41	16.0%
	Vocational Qualification	59	24.0%

	Professional qualification	18	7.0%
Main Role	Founder/Entrepreneur	76	30.0%
	Chief Executive	93	37.0%
	Proprietor/Sole Owner	56	22.0%
	Partner/Co-Owner	25	10.0%

Measurement model

The measurement scales exhibited satisfactory to excellent levels of reliability. Excellent internal consistency was reported in Table 2 for the scales of accounting literacy, banking services literacy, debt management literacy, and financial planning and budgeting literacy, with Cronbach's alpha values of 0.847 to 0.912, all greater than the recommended value of 0.7. In the same way, the value of composite reliability for these scales varies between 0.89 and 0.932, showing reliability. This, therefore, accords with the research results for convergent validity concerning the given measurement scales. Similarly, each scale's average variance extracted (AVE) values ranged between 0.618 and 0.751, far above the recommended cut-off of 0.5 (Fornell & Larcker, 1981). This indicates that the items in each scale converge well to measure their respective constructs. The Heterotrait-Monotrait (HTMT) ratio is an appropriate test of discriminant validity to maintain the distinction between the constructs. As presented in Table 3, the HTMT obtained values were far below the recommended cut-off value (Henseler et al., 2015), which indicated evidence for the validity of the discrimination of the study constructs. Therefore, the measurement scales are expected to demonstrate good psychometric properties in line with established guidelines for measuring reliability, convergent validity, and discriminant validity. Therefore, it supports valid and reliable studies of the hypothesized relationships between financial literacy components and firm performance among SMEs.

Table 2: Reliability and convergent validity

	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
ACK	0.921	0.939	0.721
BAN	0.902	0.925	0.676
DM	0.847	0.89	0.618
FM	0.89	0.924	0.751
FPBM	0.912	0.932	0.695

Table 3: Discriminant validity (HTMT)

	ACK	BAN	DM	FM	FPBM
ACK					
BAN	0.198				
DM	0.201	0.439			
FM	0.213	0.369	0.402		
FPBM	0.182	0.178	0.199	0.306	

Structural model Hypothesis:

Based on the structural equation modeling (SEM) analysis reported in Table 4 and Figure 1, we can interpret the results and assess the hypotheses regarding the impact of various financial literacy components on the firm performance of SMEs. The path coefficient for the link between FPBM and firm performance for SME (FM) is 0.192, whereby the t-statistic indicates the value at 3.786 and the p-value at 0.000. The obtained p-value is less than the standard accepted significance level at 0.05, so it infers that financial planning and budgeting literacy have a statistically significant positive influence on the firm's performance of SMEs. Thus, H1 is supported. Therefore, the result that financial planning and budgeting literacy (FPL) positively influence firm performance (H1) will be in tandem with the current literature. It is also concurrent with the acknowledged importance of financial literacy in planning and budgeting as part of SMEs' critical success and sustainability aspects. Evidence in support comes in several measures of a firm's performance for SMEs. Kimunduu et al. (2016) agree on the evidence of a positive relationship between the level of financial literacy in planning and budgeting and the performance at firm levels for SMEs. The finding is in tandem with the realization of financial planning and budgeting literacy, which allows SMEs' owner-managers to make informed financial decisions and allocate resources as planned in managing organizations for improved performance (Ye & Kulathunga, 2019).

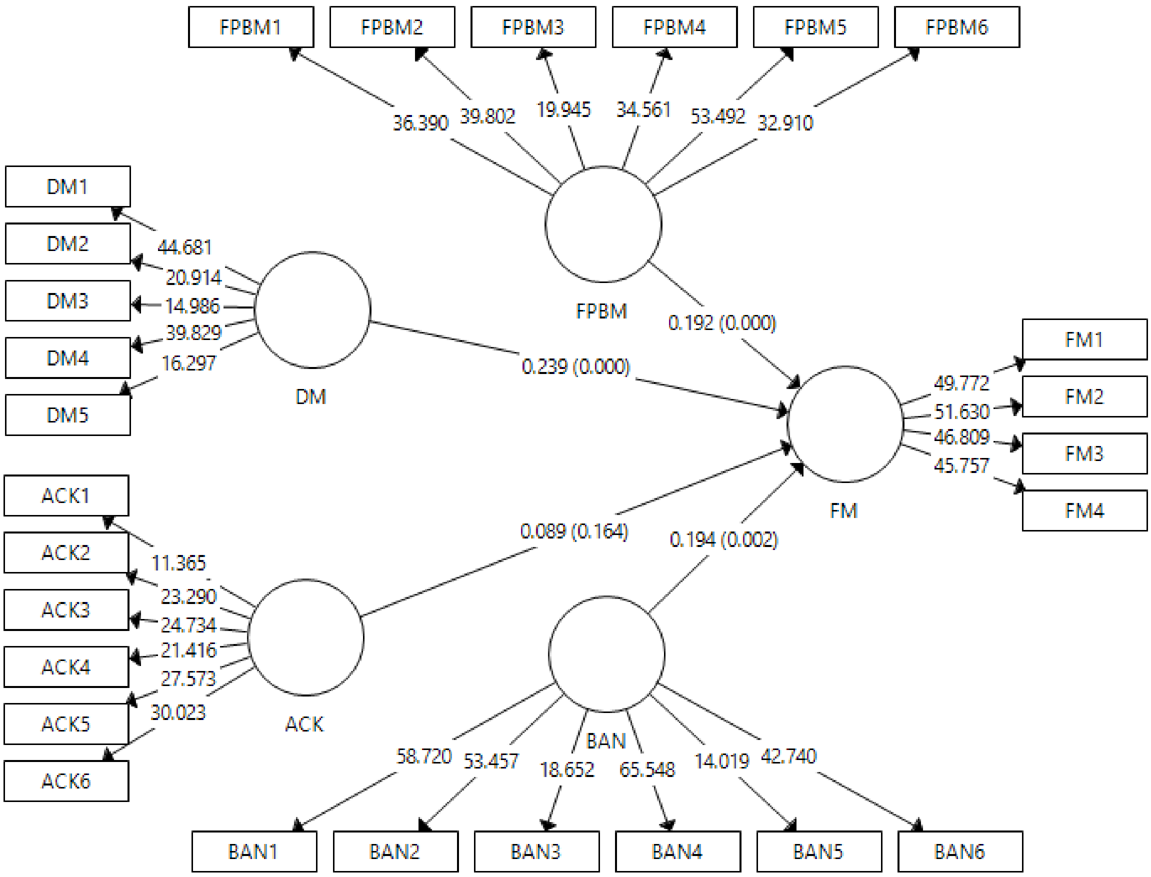

Figure 1: Structural Equation Modeling

For instance, Chepngetich (2016) denoted that financial literacy strongly influenced SMEs' credit management and budgeting performance. The findings in this regard point to the important role that literacy, financial planning, and budgeting play in enabling sound decisions on borrowing, management of capital structure, and allocation of resources and operational effectiveness, which are determinants for success among SMEs. The effect that could be associated between the literacy level of financial planning and budgeting with SME performance is the broader effect of education in heightening the literacy levels of financial matters. Eniola and Entebang (2015) model is categorical and insists that financial literacy, particularly planning and budgeting competencies, promotes firm performance significantly. In such, empirical validation to the conceptual arguments would bring insights valuable for SME owners and policymakers. Financial literacy is also directly associated with value creation in SMEs for cumulatively sustainable performance outcomes (Ye & Kulathunga, 2019).

Table 4: Structural Equation Modeling (SEM)

Hypothesis	Path	Original Sample	Standard Deviations	T Statistics	P Values
H1	FPBM -> FM	0.192	0.051	3.786	0.000
H2	DM -> FM	0.239	0.053	4.505	0.000
H3	ACK -> FM	0.089	0.063	1.415	0.157
H4	BAN -> FM	0.194	0.063	3.065	0.002

The path coefficient for the relationship between debt management literacy (DM) and firm performance of SMEs (FM) is 0.239, computed at a t-statistic of 4.505 and p-value 0. On the strength of this p-value being less than 0.05, we are therefore comfortable that the respondents' debt management literacy positively influences the firm's performance by SMEs and is, therefore, statistically significant. This finding, therefore, is highly in line with the existing literature that debt management literacy regarding the influence on firm performance of SMEs (H2) strongly supports and is reflected from the broad view regarding the role of financial literacy, including debt management, as an important success determining factor of SMEs. The result was found to be a positive relationship between the financial literacy of debt management and the performance of the firm, as it is commonly perceived regarding the level of financial literacy that is deemed to have a contribution and support to the performance of the small and medium enterprise (Eniola & Entebang, 2017).

Literacy in the management of debts will enable owner-managers of SMEs to skillfully make decisions regarding borrowing, effective services, and restructuring of debts, optimization of the capital structure, and receiving favourable terms regarding negotiations while financing via debts. It is, therefore, more likely to lead to improved financial performance, less financial risks, and better sustainability for SMEs. Empirical evidence bears out the fact that debt management literacy has a positive influence on SME performance. Mustafa et al. (2022) conceptualized that financial literacy would positively correlate with the business performance of the SME, signalling a linkage directly with the debt management literacy and financial knowledge and output of the business. The said result is further substantiated by Gusman et al. (2021) in their study, wherein this is proved true in the case of the knowledge of financial principles, such as debt management within SME managers. Further, it confirms the positive linkage of financial literacy among SME managers with better organizational results. Ismanto and Pebruary (2022) further establish that SME performance thrives on financial literacy, debt literacy, and financial experience, and therefore it is indeed one of the very critical aspects of financial understanding, particularly in management, to succeed. Financial education and knowledge of the importance of debt management and financial literacy can enhance decision-making and modify financial attitudes likely to affect firm performance, which must be stressed by the owners and managers of SMEs (Eniola & Entebang, 2017).

From this study, the path coefficient of the relationship between accounting literacy (ACK) and SME (FM) firm performance is 0.089, with a t-statistic of 1.415 and a probability value of 0.157. The computed p-value is greater than 0.05; thus, it implies that accounting literacy does not significantly influence firm performance among SMEs. It does not thus support H3. The finding seems to contradict common propositions and theoretical frameworks about the role played by accounting knowledge in fostering organizational success. General empirical evidence would support a positive relationship between accounting literacy and firm performance, but the present study's results contrast Ghofirin and Wahyuningtyas (2021) in supporting the fact that there is a positive relation between accounting literacy and firm performance. This further solidifies the argument put forward by resource-based theory (Barney, 1991). Thus, according to RBV theory, to the extent that the owners do have accounting knowledge, this will be a valuable and rare resource that may enable the firm to achieve a competitive advantage and superior firm performance, provided the resource is inimitable and non-substitutable. Accounting literacy, an ability also residing within the know-how of owner-managers, is such a rare resource that it meets the criteria of inimitability and non-substitutability (Eniola & Entebang, 2015; Gusman et al., 2021). The discordant finding may be due to the contribution of contextual factors or methodological limitations specifically restricted to this study, and the theoretical perspective stated was contrary to what other studies have found. Possible explanations might be linked to the specific accounting literacy used for assessing accounting literacy or the sample's firm performance or characteristics. However, from the wider context of literature, evidence has been reported that accounting literacy assumes a very significant place, especially in the performance of firms belonging to SMEs.

The path coefficient of the relationship between banking service literacy (BAN) and firm performance of SMEs (FM) is 0.194 with a t-statistic of 3.065 and a p-value of 0.002. Thus, based on the test result, when a p-value is less than 0.05, the impact of banking services literacy on firm performance can be statistically significant, leading to a positive relationship with the firm performance by SMEs. Thus, data support H4. This finding goes per the existing literature, which usually emphasizes the pivotal role of financial services literacy, including banking service literacy, and its role in enhancing SME performance (Maziriri et al., 2018) (Umboh & Aryanto, 2023). Financial literacy has further been shown to increase banking access and the use of financial services among SME owners, including knowledge of banking services (Cole et al., 2009; Hakim & Ningsih, 2020). Firm performance has primarily been an aspect of access to banking services and financial resources, especially among small and medium enterprises (SMEs).

The SEM results, however, support Hypotheses H1, H2, and H4, suggesting that financial planning and budgeting, debt management, and banking services literacy statistically significantly influence firm performance. However, on the other hypothesis, H3, which is about the positive relationship between accounting literacy and firm performance by SMEs, there is no support for this data. The underpinning theories of these findings are the resource-based view (RBV) (Barney, 1991) and the knowledge-based view (Grant, 1996). RBV assumes that banking service literacy can be taken into the category of one enabler of valuable resources, and its effective utilization will allow access to financial resources that will lead toward competitive advantage and superior performance of the firm. The knowledge-based view holds that knowledge assets, like financial service literacy, are the force that propels organizational success and innovation. These theoretical perspectives raise a positive relationship between banking services literacy and SME performance.

The model's goodness-of-fit was evaluated using various fit indices (Table 5). This R-square, with a value of 0.226, therefore, gives a value of around 22.6%, which the independent variables in the model account for concerning the dependent variable (R2 = 0.226). When adjusting for the number of predictors, the R-square value slightly decreased to 0.213 (R2Adjusted = 0.213). The Standardized Root Mean Square Residual (SRMR) was valued at 0.048, signaling good fitness of the model because values below 0.08 usually represent an accepting case of fitness (SRMR = 0.048). An NFI (Normed Fit Index) value of 0.889 can be considered acceptable, as models with an NFI above 0.9 are generally considered acceptable fits. The model was generally related to moderate-to-good fit in terms of reported fit indices, among which some showed an acceptable to good fit (R-square, adjusted R-square, SRMR, NFI).

Table 5: Model goodness-of-fit indices

R Square	0.226
R Square Adjusted	0.213
SRMR	0.048
NFI	0.889

Conclusion

This study aims to identify the determinants of the dimensions of financial literacy that influence the performance of Small and Medium Enterprises (SMEs) in Sri Lanka. The findings presented contribute largely to shedding light on the importance of financial literacy in driving organizational success in the SME sector. This research has evidenced that the literacies: Financial planning and budgeting (H1), debt management (H2), and banking service (H4) do, in fact, jointly have a positive significant statistical influence on firm performance amongst SMEs. All these are per most of the literature outlined in this paper. Where, on the other hand, contrary to the expected belief, accounting literacy (H3) was statistically not significantly positive on SME performance, the financial literacy of SME entrepreneurs targets several dimensions that need to be targeted at some specific dimensions in order to prove beneficial for the growth and sustenance of SMEs. This may lead to the optimization of resource utilization, reduction in financial risks, and enhancement of overall performance and competitiveness while, at the same time, offering a sense of security in the reduction of debts through enhanced financial literacy, mainly in areas such as financial planning, budgeting, debt management, and banking services.

The findings' implications could be valuable in providing relevant direction for both practice, policy, and owners of SMEs. It further emphasizes that SME managers and owners have to develop their financial literacy ability in developing countries. For example, they should acquire financial planning and budgeting knowledge, debt management, and bank services. This allows small and medium enterprises to invest and build their capacity for financial decision-making at par with the existing market dynamics, enhancing competitive business advantage emanating from optimizing resource utilization and, secondly, to policymakers and regulatory bodies. Financial literacy holds an important key to the future success of these

SMEs; therefore, targeted initiatives and programs could help build the needed financial educators. This may include the design of tailor-made curriculums, the establishment learning institutions, and outreach at advisory services levels. This would also form a basis for the implications that this study will have on practitioners, including those from financial institutions and consultancy firms. Such firms would further have to provide the SMEs with stakeholders' dimensions of financial literacy, products, services, and advisory, contributing to their success. This may involve designing special training programs, offering advisory services on special financial aspects, and designing financial products tailor-made to fit their unique needs by the SMEs.

It is recommended that institutions of learning and government bodies develop comprehensive financial literacy education programs to satisfy the owner-managers of SMEs' business needs in the respective countries. Such efforts need to bring knowledge and skills about financial planning, budgeting, debt management strategies, effective use of banking services, and other relevant features of financial literacy. They further need to engage actively with the financial institutions for access to tailor-made services and advisory support guided by the peculiar needs related to facilitating access to financial resources, counsel on managing debts, and insight into optimizing the use of the banking services. For example, some knowledge-sharing platforms that SME owners and managers could organize are industry associations or online communities, allowing them to share best practices and insights or experiences in business operations requiring financial literacy. In addition, financial literacy initiatives informed by technology, such as e-learning, mobile apps, and interactive tools, could improve access and present SME owner-managers with the facility and flexibility to learn at their preferred time. Finally, longitudinal studies would have to be pursued to consider the impact of financial literacy interventions on the performance of SMEs over the long term. Since these contain valuable insights, it shows sustained effects related to financial literacy and aid in developing effective strategies for SME's long-term growth and sustainability.

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