



Drivers of Financial Literacy in Small and Medium-Size Enterprises (SMEs): A Study Based On Demographic and Socioeconomic Factors

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Abstract:

The study delved on the drivers of financial literacy in SMEs, focusing on demographic and socioeconomic factors. Using a Structural Equation Modelling (SEM) approach, data were collected using survey questionnaires from 200 SMEs. The results of the finding revealed that both demographic and socioeconomic factors influence financial literacy of SMEs. Basically, level of education, financial education, financial socialisation, and specialisation in business and/or economics emerged as significant predictors of financial literacy. The findings underscore the importance of promoting financial education programs, encourage specialisation in business and economics, and fostering financial socialisation through social learning in order to enhance financial literacy in SMEs.

Keywords: Financial Literacy, Demographic, Socioeconomic, SMEs

Introduction

Small and medium enterprises (SMEs) contribute significantly to economic development through wealth distribution, job creation (Okoli et al., 2023), technological progress, poverty alleviation, increase income (Noorali & Gilaninia, 2017) and innovation (Agyei, 2018). To create a sound industrial sector in the economy, having a good SME sector becomes essential. Financial literacy is an important thing that must be owned by SMEs manager in achieving success and improving business performance. The success of SMEs sector depends highly on the level of financial literacy of the entrepreneurs. There is no sector where financial literacy is more crucial than that

of micro, small, and medium-sized businesses. Previous research shows that high financial literacy will help SMEs plan business growth strategies and overcome financial challenges. Dewi et al. (2020) define financial literacy as an interrelationship of awareness, experience, knowledge, skills, capability, goal, and behaviour to make financial decisions. It is indispensable for the owners of small businesses as it helps them to make financial decisions in the business (Oseifuah, 2010). For small business owners, this understanding is critical in managing their enterprises effectively, optimizing resources, and achieving long-term success (Aderemi et. al., 2024). Therefore, it is necessary to develop the

SME sector, especially managers who can influence running the business of their enterprises as well as their employees in terms of financial literacy capture by knowledge, behaviour and attitude (Eniola & Entebang, 2017).

Empirical research suggests that SMEs with higher financial literacy levels are better at managing debts, stabilizing cash flows, and achieving long-term financial sustainability (Akhtar et al., 2024). For example, Small and Medium Enterprises that use appropriate financial knowledge are more likely to achieve better performance, stable business growth, and have the ability to overcome financial challenges. On the other hand, SMEs with financially literate owners are more resilient, better equipped to withstand economic shocks, and more likely to achieve financial stability (Wiagustini, Ramantha & Putra, 2023). Without financial knowledge, SMEs often struggle to secure funding, manage cash flows, and navigate financial risks, leading to business failure (Ferawati, Fadah & Paramu, 2024), and are at a higher risk of making poor financial choices, which can lead to long-term economic instability and hardship (Akpuokwe et al., 2024). Therefore, financial literacy is closely tied to business success (Abdallah et al., 2024).

Some studies shown that levels of financial literacy worldwide are unacceptably low (Ponio and Timog, 2017; Barte, 2012; Oseifuah, 2010; Bhushan & Medury, 2013; Rachapaettayakom et al., 2020; Mashizha et al., 2019). According to Beck and Cull (2014), African financial systems including that of Cameroon are low and shallow, which pointed to the fact that financial literacy among SME managers in Cameroon is low. In 2008, the Department for International Development's (DFID, 2008) study showed that financial literacy levels are quite low in African countries compared to other countries. However, Lusardi and Mitchell (2011) also indicate that financial illiteracy is widespread even in highly developed financial markets, such as Germany, Holland, and Japan. For example, a global study by the Organisation for Economic Co-operation and Development (OECD, 2020) found that less than 50% of adults in most countries can correctly

answer questions about inflation, interest rates, and risk diversification. In the same vein, (Lusardi and Bassa, 2013; Lusardi, Mitchell & Curto, 2010 ; Lusardi & Tufano, 2009) also stated that individual and SME managers with low levels of financial literacy tend to make wrong decisions by participating less in the formal financial system and borrow at higher interest rates relative to their more financially literate counterparts. Moreover, low financial literacy level makes it difficult for SMEs to access funding because they are unable to produce financial reports properly and inaccurate financial management (Agung et al., 2020). Furthermore, lack of financial literacy can make it difficult to manage daily expenses and financial resources effectively, further exacerbating financial hardship (Espinoza-Delgado & Silber, 2023).

One of the main questions that today's academic research tries to answer is what the significant predictors of financial literacy are, i.e., on what does the level of financial literacy depend on. Accordingly, studies examining financial literacy and its variables have developed dynamically. Most researchers tried to identify the factors that affect the level of financial literacy. The review of extant literature revealed that a variety of demographic, economic, and social factors are sought to influence financial literacy (Rehman & Aslam, 2024). In the same vein, empirical gaps show significant differences caused by socioeconomic, and other demographic factors in developed and developing countries. For instance, Vera (2022) investigate various relationships between demographic and socioeconomic factors and financial literacy variables. This study revealed that demographic factors of sex, age, and specialization affected different relationship of financial skills, knowledge, capability, awareness, experience, goal, and financial decision. The results proved that demographic and socioeconomic factors enhanced financial literacy. This result emphasizes that strengthening awareness and experience as future orientations could improve financial literacy levels in developing countries. In addition, Castañeda et al. (2022) analysed the sociodemographic

determinants associated with the financial literacy levels of the Chilean population based on three dimensions: (1) knowledge; (2) behaviour; and (3) attitude. It analyses the impact of sociodemographic factors such as sex, age, education, and employment situation have on the financial literacy level of the population surveyed. The findings indicate that a person between 30 and 60 years old, with a high education level, who earns a high income, will have a greater probability of possessing an adequate financial literacy level. Cude (2010) examined effective factors on people's financial literacy. He observed that more work experience, higher levels of education, risk appetite, parental occupation, higher age, family income and attending training classes will boost financial literacy. According to Imelfina et al. (2023), factors that influence financial literacy are age, gender, education, length of work and income. Tamimi and Kalli (2019) examined the impact of financial literacy on financial knowledge. Their results showed that male gender possesses higher financial literacy and income, age and education level are followed by a higher level of financial literacy. Moore (2003) elucidated that literacy or knowledge is gained via practical experience and active integration of knowledge. In other words, people will become more sophisticated in terms of finance when they are more literate. According to Bawre and Kar (2019), financial literacy tends to increase with higher levels of education, risk tolerance, age, job experience, family income, parental occupation, and training class attendance. In addition, factors such as household characteristics (Twumasi et al., 2021), educational attainment (Shimizutani & Yamada, 2020), parenthood (Bharucha, 2017), and the discipline of education (Kiliyanni & Sivaraman, 2018) have also been shown to influence financial literacy. According to Mbarire & Ali (2014), age, gender, education, other wealth characteristics, information sources, and financial guidance all have an effect on financial literacy levels; however, personal income and the type and position of one's work have no such effects. Isomidinova & Singh, (2017), advocate that

financial education and financial socialization agents positively impact students' financial literacy in Uzbekistan. Meanwhile, (Kumar, 2019) found that age, gender, residential origin, income, educational attainment, occupation, and other demographic factors all contribute to the pervasiveness of financial illiteracy in emerging nations. On the other hand, Ussain, Kijkasiwat, Rehman & Ullah (2022) stated that marital status, income, and Father's education are significant determinants that improve financial literacy. Meanwhile, Arif (2015) found significant disparities in financial literacy among respondents based on age, gender, employment status, and marital status. Educational attainment, age, monthly income, gender family life cycle stage, occupation, type of work activity, years of investment experience, frequency of shopping, and risk tolerance all show statistically significant relationships with the degree of financial literacy (Gupta, 2017). Lusardi and Mitchell (2011) identified two significant trends of financial literacy in highly developed economies. First, related to sex, women in those countries tend to have less financial understanding than men. Second, they observed that people with higher education levels are better informed, but this does not necessarily imply that they have a better level of financial literacy. Lestari et al. (2020) revealed that gender and age of the respondents significantly influenced their level of financial literacy.

However, research on the factors affecting financial literacy, while increasing, remains limited. A review of extant literature reveals that there is no consensus of drivers of financial literacy. This is despite the growing global interest in the field (Rehman & Aslam, 2024). In fact, the main approach of the majority of authors was to split financial literacy into multiple categories. To facilitate understanding and align with the study's objective, we categorized these factors into broader categories based on their nature, namely demographic, and socio-economic. While many studies treat these variables independently, there is a need for more research examining their combined effects on financial literacy. In addition,

previous findings highlighted drivers of financial literacy in individuals, and there is scanty of literature in the framework of SMEs, whose survival highly depends on the achievement of financial literacy. Moreover, the literature shows that various studies pertaining to financial literacy have been carried out in different parts of the world. Most of the work is done in US, Australia, UK and other developed nations. Very few research studies have been carried out in developing countries like Cameroon. Indeed, despite the great potential of the topic, no or little research so far has been undertaken to assess the impact of different determinants on financial literacy in Cameroon. By examining these factors, this research seeks to offer valuable insights into how different variables contribute to financial literacy and inform the design of more effective financial literacy programs. The study's findings can assist policymakers in their efforts to improve the financial literacy of individuals, particularly entrepreneurs, by enabling them to make more informed financial choices, prevent financial strain, and achieve their financial objectives.

The rest of the paper is organised as follows: **section two** reviews the literature related to financial literacy, drivers of financial literacy and SMEs, **section three** covers the methodology of the study, **section four** constitutes presentation and discussions of the results, and section 5 covers the conclusion and recommendations.

2- Literature Review

This sections covers the literature related to financial literacy and drivers of financial literacy.

2.1- Financial literacy and its drivers

Defined in this study as SME owners' ability to understand, apply, and leverage financial knowledge to improve financial decision-making, access to finance, and optimize resource allocation. Financial literacy is closely tied to business success (Abdallah et al., 2024). The topic of financial literacy has risen to the top of policy discussions due to its significance throughout a person's life cycle and the documented shortcomings in meeting even basic financial

literacy requirements (OECD, 2019). Accordingly, several studies have examined demographic and socioeconomic factors affecting financial literacy levels (Bhushan & Medury, 2013; Garg & Singh, 2018; Cucinelli et al., 2019; Kadoya & Khan, 2020, Kiliyanni & Sivaraman, 2018). According to Zaimovic et al. (2023), there are many different determinants of financial literacy that can vary depending on the individuals and their socio-economic and demographic factors. In fact, the demographic and socio-economic components of financial literacy stand out as the most discussed factors in the literature (Kiliyanni & Sivaraman, 2018; Chaudhry et al., 2009; Galizzi et al., 2023; Twumasi et al., 2021; Bhatia et al., 2021). For instance, Bhushan and Medury (2013) made an attempt to determine financial literacy level of salaried individuals based on various demographic and socio-economic factors. According to these authors, financial literacy level gets affected by gender, education, income, nature of employment and place of work whereas it does not get affected by age and geographic region. According to Yadav (2020), individuals' financial literacy is influenced by their demographics, which should be considered when creating financial literacy programs and courses. In the same vein, Gangwar and Singh (2018) advocate that individuals in India exhibited low financial literacy, with notable variations observed in relation to sociodemographic and economic characteristics. On the other hand, Nanziri and Leibbrandt (2018) proved that the differences in financial literacy were correlated with demographic and economic characteristics.

2.1.1-An overview of demographic factors

From a broad perspective, Yusuf et al. (2014) define a demographic factor as the population characteristics, comprising of sex, marital status, living arrangements and household composition, language, ethnic background, health and disability, education and training, employment status and occupation, income and household consumption, and population densities and urban and rural residence. The effects of demographic factors on financial literacy have been investigated by numerous studies (Chen & Volpe, 1998, 2002;

Klapper & Lusardi, 2020; Lusardi & Mitchell, 2008; Lee et al.; 2021; Garg & Singh, 2018; Gutter et al., 2010). These studies affirmed the significant and positive impact of demographic factors on financial literacy, including age (Damayanti et al., 2018; Kadoya & Khan, 2020 ; Shimizutani & Yamada, 2020 ; Bawre & Kar , 2019), gender (Karakurum-Ozdemir et al., 2019 ; Kiliyanni & Sivaraman, 2018 ; Ahmad et al., 2020), income (Jayanthi & Rau, 2019 ; Kevser & Doğan , 2021; He & Ahunov, 2022), marital status (Böhm et al., 2023; Mirzaei & Buer, 2022), and level of education (Galizzi et al., 2023; Singh & Singh, 2023 ; Loke et al., 2022). For instance, Singla & Mallik (2021) found that the level of financial literacy varies among individuals based on age, gender, education, and experience (Singla & Mallik, 2021). They also highlighted gender as the most influential factor, with men typically exhibiting higher levels of financial literacy compared to women. Moreover, Bharucha (2017) identified marital status and residential location as additional factors positively impacting financial literacy. In the line, Klapper et al. (2015) state that demographic characteristics, such as sex, education level, and age show different financial literacy levels. This statement is consistent with Yakoboski et al. (2019) who found that demographic groups had various financial literacy levels; men and adults have high levels of financial literacy. Meanwhile,

According to Böhm et al. (2023), families led by females had lower levels of financial literacy, although gender did not significantly influence financial literacy in India. Ansong and Gyensare (2012) attempted to find a link between financial literacy and demographic characteristics. They observed that age, work experience, and the mother's education were positively associated with financial literacy, while, contrary to previous research, the level of study outcomes, work location, father's education, and the source of education on financial literacy were not significantly correlated with financial literacy. Lusardi and Mitchell (2011) established links with the factors of age, gender, race and religion across three separate works. They found that the young

and the old are less financially literate, that women overall are less financially literate and that there are differences in levels of financial literacy across different races and religions that even inhabit the same area. In many regions, particularly those with significant Muslim populations, Islamic finance principles play a crucial role in shaping individuals' financial behaviours and attitudes (Alsmadi, 2024; Kevser & Doğan, 2021).

2.1.1.1-Sector of activities

In the literature it is sought sector of activities influence financial literacy. For instance, Anshika et al. (2021) found that service sector firms exhibited higher level of all types of financial literacy than their manufacturing counterparts. This is borne out by the fact that entrepreneurs of service enterprises scored more in financial literacy than the entrepreneurs of manufacturing firms. This is due to the fact that entrepreneurs of service sector involved in information & technology, repair and servicing of motor vehicles etc. have to acquire some qualification before starting their enterprise. Also, the entrepreneurs of the MSEs indulged in the service sector, transact on the daily basis and thus prompt them to improve their financial knowledge.

2.1.1.2-Educational level

On the other hand, Dwyanti (2024) asserted that the educational background of business actors also influences their level of understanding of financial and accounting concepts. Thus, it implies that the entrepreneurs of SMEs with the higher level of education will be able to increase the level of different types of financial literacy significantly. Specifically, Lusardi & Mitchell (2014) support the observation that the level of education influences the level of financial literacy. In addition, Goswami et al. (2017) highlighted that education helps the entrepreneurs not only to manage the risk but also influences the value-added output and better financial access that ultimately leads to the profitability which acts a safeguard against any undesirable failure of venture. Kim and Mountain (2019) found that individuals with higher levels of education

typically demonstrate superior financial literacy skills. Riaz et al. (2022) advocated for educational institutions to recognize the importance of bolstering financial literacy through higher-quality educational programs.

2.1.1.3-Financial education

Similarly, financial education has been identified as the main determinant of the financial literacy (Huston, 2010). Most research about measuring financial literacy identifies financial education as the main determinant with the argument that it explains the variation of financial outcomes. According to Lusardi and Mitchell (2014), individuals who participate in financial education programs exhibit higher levels of financial literacy and tend to make more informed financial decisions. Financial education involves teaching financial concepts with the goal of improving financial literacy (Polisetty et al., 2021). In short, financial education refers to a process that equips people with financial knowledge and habits so as to achieve an adequate level of financial literacy. Financial education is considered the foundation for developing financial literacy. For example, financial education helps individuals understand core concepts such as budgeting, saving, debt management, and investing. For instance, Xu and Zia (2012) noted that financial education tailored to the specific needs of women, young adults, and low-income populations can significantly increase their financial literacy levels. Findings by Grohmann et al. (2015) asserted that targeted financial education is more effective in bridging knowledge gaps and fostering long-term financial competence. Tumba et al. (2022) assert that financial education is essential for the success of female micro-entrepreneurs. Similarly, Finke and Huston (2014) posited that improving financial literacy can be achieved by educating youth about financial matters. While, Huston (2010) established that education has a strong positive correlation with financial literacy. Financial education was also the main topic of Fernandes et al. (2014), as they noticed that many experts reached a conclusion that financial education leads to increased financial literacy.

2.1.1.4-Age level

Literally, it is found that age influence financial literacy. For instance, significant differences in financial literacy of youth by gender are confirmed in many studies (Garg & Singh, 2018; Mata, 2021; Dundure & Sloka, 2021; Fletschner & Mesbah, 2011; Folke et al., 2021). The age factor shows that young people have lower financial literacy, financial attitude scores, and financial knowledge as well as show less prudent financial behaviour than mature adults. Similarly, Klapper et al. (2015) contend that financial literacy levels differ in the age factor of economically developed and developing groups. Kiliyanni & Sivaraman (2018) suggested that financial literacy improves with age, peaking at around age 26–29 years. Authors such as (Lusardi & Mitchell, 2014; Henager & Cude, 2016; Kadoya & Khan, 2020) found that the demographic factor of age had a significant effect on financial literacy. Studies suggest older participants tend to outperform younger ones. Dundure and Sloka (2021) found that young persons who have incomes from their professional activities owing, to their increasing age also have a higher financial literacy level. In contrast, (Bhushan & Medury, 2013; Kim & Mountain, 2019) reveal that financial literacy is not affected by age. Similarly, the studies of (Murendo & Mutsonziwa, 2017; Mashizha et al., 2019) are not consistent as they showed that the old respondents had low level of financial literacy and encountered difficulties in improving their financial capabilities. In addition, (Bajo et al., 2015; Bawre & Kar, 2019) contend that both young and old people have a low level of financial literacy. Meanwhile, Lusardi and Mitchell (2014) indicated that with increase in their age and experience, probably the entrepreneurs improve their level of the financial literacy by dealing with daily financial issues.

2.1.1.5-Sex or gender

Another growing area of research is the role of gender in financial literacy. Several previous studies revealed that sex has significantly affected different levels of financial literacy, and they

proved that women were less financially literate than men (Bucher-Koenen et al., 2021; Klapper & Lusardi, 2020; Kadoya & Khan, 2020; Minhas, 2017; Rink et al., 2021; Swiecka et al., 2020; Bhushan and Medury, 2013; Klapper et al., 2015; Vera, 2022; Potrich et al., 2018; Lotto, 2020; Rink et al., 2021). For example, Lusardi and Mitchell (2014), and Potrich et al. (2016) found that females tend to face difficulty while making financial calculations and often do not possess adequate financial knowledge. In the same vein, Chen and Volpe (1998) revealed that men are more interested in and enthusiastic about obtaining financial knowledge than women are. According to these authors, men have greater knowledge of personal finances and finances in general. Moreover, the same study showed that men have more confidence in their knowledge and a better understanding of the importance of financial knowledge. Moreover, a comprehensive study of financial literacy among Australian youth conducted by Lusardi (2019) revealed that students with higher financial literacy levels were more likely to be male, possess greater job experience, earn more money, and have lower overall risk preferences. On the contrary, a recent study by Bucher-Koenen et al. (2021) found that when provided with equal access to financial education, women demonstrate substantial improvements in financial literacy, often outperforming their male counterparts in specific areas such as savings and debt management. This suggests that addressing gender disparities in financial education can have significant implications for enhancing overall financial literacy. Similarly, Falahati and Laily (2011) found higher financial satisfaction of female students over male students, which could be due to their lower levels of desire and expectations from life in the male preference culture. Fletschner and Mesbah (2011) also found that women are less financially informed than men, but their knowledge has significantly increased with wealth, education, and encouragement by spouses to obtain and use it. According to these authors, women were proven to be good financial managers and were considered more reliable in

managing finances. One of the reasons for women's better money management than men's was because women more regularly and carefully saved their money as well as carefully and thoroughly managed finances. Meanwhile, some studies found that sex does not affect financial literacy (Cwynar, 2021; Ibrahim et al., 2016; Kim and Mountain, 2019), because both sexes show equal understanding of the financial awareness concept. However, Fonseca et al. (2012) concluded that the gender gap cannot be explained by sex alone, but rather by the characteristics of financial literacy, and, in some cases, may be related to a household's financial education level. Eventhough, the gender gap has been bridged somewhat, women are still at a disadvantage in comparison with men on almost all financial indicators. They attribute this to less access and less use of financial services and instruments by women.

2.1.1.6- Specialisation in business and economics

Sarigül (2014) and Ibrahim et al. (2016) proved that specialisation had a significant impact on financial literacy. Similarly, He and Ahunov (2022) and Kevser and Doğan (2021) suggested that individuals with basic knowledge of economics tend to have a higher level of financial literacy and vice versa. Jayanthi and Rau (2019) and Karakurum-Ozdemir et al. (2019) further noted that individuals from disciplines such as finance, economics, and management demonstrate higher levels of financial literacy compared to those from other disciplines. Ibrahim et al. (2016) investigated the effects of specialization on financial awareness and discovered a significant mean difference of the specializations. According to these authors, faculty members from the finance and marketing department are more financially aware than those from the office management department. The study of Lusardi (2019) supports this notion, demonstrating that young adults enrolled in business or accounting programs tend to have a stronger understanding of financial concepts compared to those in non-business fields.

2.1.1.7-Religion, location, and working experience

Religiosity is considered an influential determinant of financial literacy, reflecting an individual's religious beliefs, practices, and values in their daily life (Rahim et al., 2016; Shukor & Jamal, 2013). Religion often shapes individuals' financial decisions. For instance, research by Ahmad et al. (2020), Kevser and Doğan (2021), and Rahim et al. (2016) highlighted the importance of considering the components of religion; precisely, Islamic Financial Literacy (IFL). Islamic financial literacy is defined as the ability of an individual to make informed financial decisions in accordance with Islamic principles. Abdullah et al. (2015) further elaborated that Islamic financial literacy involves the identification and management of finances in line with Sharia compliance¹. The core principles of Islamic banking, which prohibit practices like interest, are incompatible with some factors of traditional financial literacy constructs. This incompatibility highlights the critical need to develop specific frameworks for assessing financial literacy. On the other hand, Cole et al. (2009) highlighted that regional difference influences the level of financial literacy, that is, people from rural areas are less financially literate in comparison to the people from the developed nations. Additionally, Lusardi and Mitchell (2017) revealed that the number of years of workforce experience significantly influences financial literacy. Individuals with more years of experience tend to possess higher financial literacy levels and a better understanding of managing financial resources effectively.

H1 – Demographic factors influence the financial literacy of SMEs

2.1.2-An overview of socio-economic factors

Nidar and Bestari (2012) revealed that financial literacy was affected by two main factors: external

and internal factors. External factors refer to economic environment conditions, such as inflation and interest rates. Meanwhile, internal factors refer to demographic elements, such as age, sex, race, education, and socioeconomic factors. A voluminous number of empirical literature has investigated socio-economic factors affecting financial literacy. For example, economic education (Karakurum-Ozdemir, 2019 ; Ahmad et al., 2020; Kadoya & Khan, 2018), household income (Shimizutani & Yamada, 2020), family size (Karakurum-Ozdemir et al., 2019 ; Kiliyanni & Sivaraman, 2018) and income (Damayanti et al., 2018; Lee et al., 2021; Bawre & Kar, 2019) have all been extensively studied to understand their impact on financial literacy levels, both at the individual and corporate levels, over the last few decades. Studies by (Yıldırım et al., 2017, Garg and Singh, 2018; Cucinelli et al., 2019) proved that economic factors had a significant effect on financial literacy. Considering the importance and pervasive impact of these factors on financial literacy, they are often collectively referred to as the socio-economic determinant of financial literacy. In this study, socioeconomic factors are captured by financial socialisation and the level of income.

2.1.2.1-Financial socialisation

Social influence has emerged as another critical determinant of financial literacy. It refers to the impact that an individual's family, friends, and peers have on their financial behaviours and decisions. Social learning theory posits that individuals often learn financial habits by observing and interacting with their social environment, making social influence a powerful determinant of financial literacy. In the context of finance, this process is referred to as financial socialisation, wherein individuals acquire financial skills and knowledge through interactions with various agents like peer groups, family, media, and friends (Fazal et al., 2021). Individuals often mimic the financial behaviours of their peers, either consciously or unconsciously, which further highlights the role of social environments in developing financial literacy. Indeed, financial literacy could be enhanced in

¹ Sharia: Muslims adhere to Islamic religious law, known as Sharia, which encompasses not only religious practices but also guides various aspects of their daily lives. Sharia provides adherents with a framework of rules and principles to guide decisions, including those related to finances and investments.

family settings through regular discussions on money management, savings, and investments. However, researchers have used different terms to describe these socialization agents. For instance, Thapa (2015) categorized peer groups, family, media, and friends under a single category named “financial influence,” which is considered a part of personality traits that influence individuals’ financial literacy. Lachance (2014) studied the impact of neighbourhood characteristics on financial literacy and found social learning to be a mechanism to acquire financial knowledge. Consequently, those exposed to financially knowledgeable people become more financially knowledgeable, small medium entrepreneurs themselves (Bucher-Konen et al., 2021). According to Ahmed and Rosylin (2018) financial literacy through social development has critical effects on individuals and business owners. Therefore, the financial attitude of business owners varies depending on their economic backgrounds which ultimately affects the social settings they choose to participate.

Financial socialization during adolescence has been shown to play a crucial role in shaping financial literacy in adulthood. For example, the financial role of parents in childhood is the key basis for the financial behaviour and assumptions in adolescents that they have to possess in their adult lives (Shim et al., 2009). Studies have shown that parents significantly influence their children’s financial behaviour (Lee et al., 2021; Polisetty et al., 2021; Sharif & Naghavi, 2020; Pahlevan et al., 2020), while peers also play a crucial role in shaping financial decisions (Riaz et al., 2022). Accordingly, parental teaching and monitoring are the most important financial socialization techniques used by parents to influence their children's financial behaviour later in life. Previous studies found that family and peers played an important role in shaping financial literacy, especially among young adults (Kagotho et al., 2017; Jamal et al., 2015; Agnew et al., 2018; Urban et al., 2020). Bhatia et al. (2021) studied the effect of parental influence by including three facets, i.e., parents’ direct teaching, parents’ financial behaviour and parents as role models.

According to these authors, parental influence is a significant determinant of the level of financial literacy, which is also confirmed in studies by (Vijaykumar, 2022; Esmail, 2018). Indeed, social networks can function as informal channels of financial education, where individuals learn from each other's financial experiences. Therefore, family discussions is the most important factor of financial literacy (Vijaykumar, 2022; Rudeloff, 2019). It implies that financial discussions and allowances during childhood are strong predictors of adult financial literacy (Jorgensen & Savla, 2010). Hence, individuals who are frequently exposed to discussions about financial matters are more likely to develop positive financial habits (Shim et al., 2010). Lusardi et al. (2010) found that family financial sophistication was a significant variable of financial literacy of young adults in the USA, while Jorgensen and Savla (2010) indicated that perceived parental influence had a direct and moderately significant influence on financial attitude; indirect and moderately significant influence on financial behaviour, mediated through financial attitude; and no effect on financial knowledge. In contrast to previous studies, Sharif and Naghavi (2020) found a negative relationship between parental teaching and financial literacy among males. Agnew and Cameron-Agnew (2015) point to the impact that financial discussions in the home have on the financial literacy levels of children and adolescents. Research has shown that, on average, males have their first financial conversations at home at a younger age than females. Sharif and Naghavi (2020) show that parental education and behaviour directly affect financial behaviour and thus financial literacy among young adults in Malaysia, with a positive correlation between financial behaviour and financial literacy for females and a negative relationship between parental education and financial literacy for males.

2.1.2.2-Income level

Previous studies have also examined the relationship between financial literacy and income. The results of these studies revealed a significant influence of income level on financial literacy. According to Lusardi (2019), income

levels exhibited a notable correlation with financial literacy, suggesting that the low-income group typically demonstrates lower levels of financial literacy. In addition, (Bajo et al., 2015; Garg & Singh, 2018; Bawre & Kar, 2019, Klapper et al., 2015; Bhushan & Medury, 2013) prove that income affects the financial literacy level. In contrast, Kim and Mountain (2019) found financial knowledge does not affect someone's income. According to these authors, households with higher incomes tend to have more experience with investing compared to those with lower incomes.

H2 - Socio-economic factors influence financial literacy of SMEs

3-Methodology

This study adopts a quantitative research design using Structural Equation Modelling (SEM) to

examine the drivers of financial literacy of SMEs based on demographic and socioeconomic criteria. Data were collected from 200 SMEs operating in the city of Douala using a questionnaire. Participants were selected using convenience sampling, and the sample included owners/managers of SMEs from the service and manufacturing sectors. Before conducting SEM analysis, Exploratory Factor Analysis (EFA) was employed to identify the key determinants of financial literacy. The minimum sample size to meet the research criteria is 5–8 times of the number of indicators (Hair et al., 2017). Therefore, 35 indicators required the minimum sample size of 190–304 respondents. Since this study employed 200 samples, it met the minimum sample requirement.

Table 1 - Operationalisation of variables

Variable	Measurement	Indicators
Financial literacy	Defined as SME owners' ability to understand, financial principles, concepts, skills, and the capacity to apply such knowledge to formulate informed decisions (Esiebugie, Richard, & Emmanuel, 2018).	Likert's scale 1-5
Demographic factors	Age group	21-30 years
		31-40 years
		41-50 years
		51-60 years
	Educational level	Primary school
		High (secondary) school
		Bachelor's degree
		Master's degree
		Doctorate
	Working experience	1-3 years
		4-6 years
		Above 6 years
	Sex	Man
		Woman
	Specialisation	Economic and business
		Others
	Location (residential zone)	Urban

	Religion	Christianity
		Muslim
	Marital status	Single
		Married
		Divorced
Socioeconomic factors	Sector of activities	Widow
		Service
	Occupation or employment status	Manufacturing
		Student (unemployed)
		Employed (private sector)
		Employed (public sector)
		Self-employed
	Monthly Income	Below 50.000
		50.000-75.000
		75.000-100.000
		Above 100.000
	Financial socialisation (Acquire financial skills and knowledge through interactions with various agents like peer groups, family, media, and friends (Fazal et al., 2021))	Yes
		No

4- Results and discussions

4.1- Demographic profile of respondents

Table 2: Demographic Profile of Respondents

Variable	Measurement	Indicators	Frequency	Percentage (%)
Demographic factors	Age group	21-30 years	30	15
		31-40 years	70	35
		41-50 years	60	33
		51-60 years	40	20
	Educational level	Primary school	15	7.5
		High (secondary) school	35	17.5
		Bachelor's degree	100	50
		Master's degree	30	15
		Doctorate	20	10
	Financial education	Yes	106	53
		No	94	47
	Working experience	1-3 years	100	50
		4-6 years	60	30
		Above 6 years	40	20
	Gender	Male	103	51.5
		Female	97	48.5
	Specialisation	Economic, finance and business	126	63

		Non economic, finance and business	74	37
	Location (residential zone)	Urban	200	100
	Religion	Christianity	105	52.5
		Muslim	55	27.5
		Other	40	20
	Marital status	Single	45	22.5
		Married	125	62.5
		Divorced	30	15
Socioeconomic factors	Sector of activities	Service	130	65
		Manufacturing	70	35
	Occupation	Employed	122	61
		Self-employed	78	39
	Monthly Income	Below 50,000	24	12
		50,000-100,000	106	53
		100,000-150,000	55	27.5
		Above 150,000	15	7.5
	Financial socialisation (Acquire financial skills and knowledge through interactions with various agents like peer groups, family, media, and friends (Fazal et al., 2021))	Yes	102	51
		No	98	49

Source: Output of data analysis (2026)

The demographic profile of the respondents reflects a balanced distribution in terms of gender, with 51.5% male and 48.5% female participants. The majority of respondents fall within the age group of 31-40 years (35%), followed by 41-50 years (30%) and 51-60 years (20%), with a smaller proportion being 21-30 years (15%). In terms of education, most participants hold a Bachelor's degree (50%), while 15% have a Master's degree, (17.5%) have high school education, 10% have a Doctorate degree, and a smaller number have a primary school certificate (7.5%). 53% acquired financial education, and 47% did not achieve financial education. Regarding occupation, a significant portion is employed (61%), meanwhile a smaller number are

self-employed (39%). In terms of monthly income, the largest group earns 50,000-100,000 (53%), followed by those earning 100,000-150,000 (27.5%), with fewer respondents earning above 150,000 (7.5%), and below 50,000 (12%). Marital status reveals that 22.5% are single, 62.5% are married, and a smaller percentage (15%) are divorced. 65% of SMEs are in the service sector, meanwhile 35% operate in the manufacturing sector. 63% of respondents are specialised in economics and business studies, and 37% are non-specialised in economics, finance, and business studies. According to religiosity, 52.5% are Christians, 27.5% Muslims, and a smaller proportion being from other religions (20%). All respondents are based in the urban city of Douala

(100%). 51% approved social interactions with family, peers, and friends (51%), meanwhile (49%) disapproved social interactions.

4.2-Exploratory Factor Analysis

Exploratory Factor Analysis (EFA) was used to identify the core determinants of financial literacy in the current study. Before conducting the analysis, the Kaiser-Meyer-Olkin (KMO) test was applied to assess sample adequacy, yielding a value of 0.891, which surpasses the recommended threshold of 0.60, indicating that the sample size is sufficient for factor analysis. Bartlett's test of sphericity was also significant at the 1% level, reinforcing the data's suitability for analysis. The EFA was executed using Principal Component Analysis with varimax rotation. Following the criterion of selecting factors with Eigenvalues greater than 1, four factors were extracted, collectively explaining 79.24% of the total variance, confirming a strong explanatory capacity for the model.

4.3-Reliability and Validity

According to Sekaran (2000), the alpha coefficient can provide the best indication to determine

reliability. Hair et al. (2006) detailed the degree of alpha coefficient reliability 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. For studies related to social sciences, Sekaran (2000) stated that a value of 0.6 or above is often applied for Cronbach's Alpha. 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).

The internal consistency of the scale items was assessed using Cronbach's alpha to determine reliability, with the results presented in Table 4. All alpha values exceeded the recommended threshold of 0.70 (Hair et al., 2010), indicating strong reliability. Additionally, convergent validity was confirmed through Average Variance Extracted (AVE) values, which were all above 0.5. Discriminant validity was evaluated by comparing AVE values with Maximum Shared Variances (MSV), and since all AVE values exceeded the MSV, discriminant validity was established (Fornell and Larcker, 1981).

Table 4- Reliability and Validity

Items	Loadings	Mean	Alpha	AVE	MSV
F1	.745	4.56	0.958	0.882	0.789
F2	.786	4.60			
F3	.728	4.58			
F4	.865	4.34	0.924	0.876	0.658
F5	.831	4.45			
F6	.849	4.82			
F7	.805	4.71	0.975	0.835	0.634
F8	.819	5.12			
F9	.896	4.23			
F10	.861	4.15	0.946	0.859	0.775
F11	.882	5.37			
F12	.855	4.49			
F13	.822	4.20			

Source: Output of data analysis (2026)

The table above provides insights into the performance of items based on several key metrics: factor loadings, mean scores, Cronbach's Alpha, Average Variance Extracted (AVE), and Maximum Shared Variance (MSV). The loadings

for the items range from 0.728 to 0.896, indicating strong factor correlations, as values above 0.70 are generally considered good indicators of validity. The mean scores for the items range from 4.15 to 5.37, suggesting that respondents generally have

favourable attitudes towards the items measured, with higher scores reflecting greater agreement or satisfaction. Cronbach's Alpha values are all above 0.90, which signifies excellent internal consistency and reliability of the scales. These high values suggest that the items within each group are measuring the same underlying construct with precision. The AVE values, which measure the amount of variance captured by the construct in relation to the variance due to measurement error, range from 0.835 to 0.859, all exceeding the 0.50 threshold, indicating that the constructs have good convergent validity. The MSV values range from 0.634 to 0.789,

suggesting that while the items are distinct, there may be some overlap in variance, though not enough to cause concern about discriminant validity.

4.4-Hypothesis testing using Structure equation modelling (SEM)

Structural Equation Modelling (SEM) is a statistical approach utilized to examine and analyse intricate relationships among variables within a theoretical framework. In this study, Maximum Likelihood Estimation was employed for SEM due to its robustness, its capability to handle diverse data distributions, and its well-established theoretical basis (Blunch, 2013).

Table 5: Hypothesis results using SEM

Variables	Standardized regression weights (β)	Standard error	Critical ratio (t value)	P-value
Age group	0.465	0.551	8.920	0.0510
Educational level	0.525	0.536	9.428	0.0000
Financial education	0.543	0.555	8.332	0.0000
Working experience	0.278	0.352	8.136	0.0515
Gender	0.342	0.356	12.753	0.0513
Specialisation	0.455	0.521	10.920	0.0000
Location (residential zone)	0.454	0.489	7.428	0.0554
Religion	-0.362	0.290	11.753	0.0513
Marital status	-0.245	0.125	7.920	0.0575
Sector of activities	0.154	0.356	12.428	0.0532
Occupation	-0.236	0.052	10.753	0.0000
Monthly Income	0.365	0.378	8.428	0.5640
Financial socialisation	0.442	0.453	11.753	0.0001

Source: Output of data analysis (2026)

Table 6 – Validation of hypotheses

Hypothesis	Result
Demographic factors → Financial literacy	H1 accepted
Socioeconomic factors → Financial literacy	H2 accepted

Source: Author (2026)

The results from Table 5 reveals significant predictors of financial literacy. Proxies of demographic and socioeconomic factors such as financial education (or educational level), specialisation, and financial socialisation respectively are found to significantly influence

financial literacy of owners/managers of SMEs. Explicitly, the level of education with a standardized regression weight of 0.525 and a p-value of 0.000 (<0.05) and t-value of 9.428 (>1.96) shows that an increase in educational level significantly increases financial literacy of

owners/managers of SMEs. Thus, the level of education influences financial literacy of SMEs. This supports earlier findings, such as those by Lusardi and Mitchell (2017), who identified financial education as a key contributor to improving financial understanding and decision-making skills. Secondly, financial education (p -value $0.000 < 0.05$, $\beta = 0.543$, and $t = 8.332 > 1.96$) is found to have a positive and significant impact on financial literacy of SMEs. This implies that financial education significantly influence financial literacy of SMEs. Therefore, financial education increases the financial literacy of SMEs. Thirdly, specialisation in business, finance and economic studies with a standardized regression weight of 0.442 ($p = 0.000$) significantly influence the financial literacy of SMEs. This implies that specialisation in business, finance and economics significantly influence financial literacy of SMEs. Lastly, the results show that financial socialisation influence positively and significantly financial literacy of SMEs, with a standardized regression weight of 0.455, $p = 0.001 < 0.05$, and $t = 11.753 > 1.96$. Indeed, an increase in financial socialisation induces a proportional increase in financial literacy of SMEs. This aligns with the work of Shim et al. (2010), who highlighted the influence of social factors such as family and peer discussions in shaping financial behaviours and literacy. However, the results showed that age, gender, working experience, location, religion, marital status, sector of activities, employment status, and monthly income are found not to significantly influence the financial literacy of SMEs. In addition, financial education is found to influence the most financial literacy of SMEs. Conclusively, both demographic and socioeconomic factors are found to influence financial literacy of SMEs. Hence, hypothesis H1 and H2 are validated by the results of this study.

4.5-Discussions of findings

Based on the study's findings, it is confirmed that level of education, financial education, specialisation, and social interaction significantly influence financial literacy of SMEs. Explicitly, increase in the level of education influences positively and significantly financial literacy of

SMEs. It implies that SMEs become more financially literate with increase level of education. Therefore, understanding financial concepts and principles increase with the educational level of business owners. In addition, financial education marked by the participation in financial education programs influence financial literacy. Consequently, SMEs foster their level of financial literacy by participating in financial education programs. As result, SMEs become financial literate by attending financial education programs, and workshops. Therefore, organizations should invest in comprehensive financial literacy programs. These programs can include workshops, seminars, and online resources tailored to employees' needs. On the other hand, specialisation in business, economics and management is found to influence financial literacy of SMEs. Therefore, owner/managers of SMEs who specialised in the field of economics and/or management acquire relevant financial literacy skills to management their businesses. Therefore, it is relevant for owners/managers of SMEs to specialise in business and economics field of studies. Specialisation enhances management understanding in finance related issues, topics, and concepts influencing financial management decisions. Hence, to boost the level of financial literacy, SMEs should invest in human capital skills; specifically, in business management. Moreover, financial socialisation with peers, family, and friends is found to impact financially literacy. The discussion of financial issues with family, peers, and friends improves financial literacy of SMEs. This result underpins the importance of social interactions in fostering financial literacy. Socialisation influence plays a significant role in shaping financial literacy. And, social learning from social interactions with family, peers and friends affects financial literacy of SMEs owners/managers. Accordingly, periodic financial discussions programs should be installed within SMEs in order to enhance their level of financial literacy. Therefore, managers should encourage a culture of peer learning and open discussion about financial matters. This could also reduce stigma around financial discussions and

encourage more employees to seek financial guidance from their peers. Parents must openly teach their children about the key principles of finance, for example parents can educate their children in dividing the money they receive into three groups, namely saving money, spending money and giving money. However, this result is in line with the study of Dwyanti (2024), Mountain (2019), which showed that higher level of education influence financial literacy. It is in line as well with studies of (Lusardi & Mitchell, 2014; Polisetty et al., 2021), confirming the impact of financial education on financial literacy. In addition, it agrees with previous findings of (He & Ahunov, 2022; Kevser & Doğan, 2021), which proved that specialisation in business, finance and economics influence financial literacy of SMEs. Moreover, it is in line with studies of (Lee et al., 2021; Polisetty et al., 2021; Sharif & Naghavi, 2020; Riaz et al., 2022), which shows that financial socialisation plays a crucial role in shaping financial literacy, and hence, financial decisions.

5-Conclusion and recommendations

The objective of this study is to underscore the influence of both demographic and socioeconomic criteria on financial literacy of SMEs. In other words, this study highlights the critical role of both demographic and socioeconomic characteristics in shaping financial literacy of SMEs. Both demographic and socioeconomic characteristics have been found to significantly influence financial literacy of SMEs. Explicitly, demographic criteria such as level of education, financial education, and specialisation are sought to influence significantly financial literacy of SMEs. On the other hand, financial socialisation, which is a criterion of socio-economic dimension is found to influence financial literacy of SMEs as well. Financial literacy is very important for Small and Medium Enterprises to manage their finances well. Financial literacy not only provides a knowledge base, but also helps SMEs make better financial decisions, becomes the basis for more accurate budget planning, better risk management, and finding profitable investment opportunities. In this case, it is very important for all parties to

work together, including the government, financial institutions, non-profit organizations, and educational institutions, to increase financial literacy among MSMEs (Dwyanti, 2024).

Assessing financial literacy levels in different demographic and socioeconomic factors, as a key factor in accomplishing a successful national strategy for financial education, allows policymakers to identify gaps and design appropriate responses. This finding is significant for the policy makers, since the level of financial literacy of the entrepreneurs can be enhanced with increase in the level of education, and through social interaction. Indeed, better understanding of general and specific financial literacy and its determinants can help the players such as government agencies, educators/trainers and others at the state and centre level to develop and implement policies to enhance entrepreneurs' financial literacy. The findings emphasize the need for organizations to invest in comprehensive financial and specialised education programs and promote social learning to boost SMEs financial confidence and decision-making skills. Colleges and universities should seriously consider providing financial education through various means. Hence, it is suggested that all schools, degree/diploma colleges/institutions should include basic finance related courses in the curriculum. The subject should comprise of various types of literacy such as banking, price, financial planning, risk, taxation and legal. These should cover the topics pertaining to concept of finance, various sources of funds, creation of internal funds, preparation of budget, surplus/deficient budget, types of investments and risk, knowledge about financial statements, calculations of tax liability, tax planning, knowledge about legal framework for formation of the firm and effective management. Specific workshops on interactive topics in finance should be organised in order to boost the level of financial literacy of SMEs. The creation of a forum to discuss financial topics with SMEs is important to enhance financial knowledge, financial behaviours, and financial attitudes of SMEs.

The current study provides valuable insights into the factors influencing financial literacy, but there are numerous areas where future research could expand on these findings. One promising direction is conducting the study in other areas of Cameroon, since the current study focused only in the city of Douala. Thus, contextual proxies may influence differently financial literacy of SMEs. In addition, it is important to perform longitudinal studies to track changes in financial literacy over time, which would provide a deeper understanding of how financial education, social influence, and educational level evolve and impact financial literacy across different life stages. Additionally, future research could focus on different sectors of activities not considered in this study. Moreover, this study focused on internal factors to shedlight on the financial literacy of SMEs. External factors susceptible to influence financial literacy have not been employed in the study. External factors refer to economic environment conditions, such as inflation and interest rates. Therefore, further studies should include external factors to capture their effects on financial literacy of SMEs.

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