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**THE ROLE OF FINANCIAL LITERACY IN ENTREPRENEURIAL  
SUCCESS: A STUDY OF SMALL BUSINESSES IN PAKISTAN**

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## Abstract

This paper focuses on factors of financial literacy that determine the level of success of small business entrepreneurs in Pakistan. Through a quantitative approach, empirical data was obtained from 287 small business entrepreneurs across four major cities to examine the financial literacy level of the respondents as well as the link between financial knowledge, attitude, and behavior with the performance and sustainability of the business. The analysis shows that the results of checking the level of financial literacy are directly correlated with indicators such as revenue, revenue growth, and enterprise survival. In the context of the regression analysis, it is found that planning for finance, budgeting, and willingness to comprehend the concept of credit portray the different factors that tell about business success. This appears with differences based on the education level, area of living, whether urban or rural, and gender. Such gaps suggest the need for SMEs in Pakistan to be provided with specific financial literacy programs, which would improve their outcomes. Recommendations for change include: adding instruction on finance to entrepreneurship, devising literacy initiatives for sectors, and enhancing simple financial products and services.

**Keywords:** Financial literacy, entrepreneurship, small businesses, Pakistan, business performance, quantitative analysis, financial education, economic development.

### 1. Introduction

SMEs extend their role in Pakistan's economy, accounting for the GDP and providing to 80% non-of the agriculture sector workforce (State Bank of Pakistan, 2022). As much as the SMEs in Pakistan are vital in the overall economic development, the statistics show that they are majorly challenged and close down within the initial three years of operation, at 53% on average, as stated in the Pakistan Bureau of Statistics, 2024.

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Based on the causes of business failures, lack of proper finance management and limited financing are always the main impediments (Khalid & Khan, 2021).

Financial literacy, which is the possession of understanding, knowledge, capacities, perceptions, and activities required for proficient managerial activities and decisions, has been accepted as an influential factor that plays a role in predicting the success of an entrepreneur (OECD, 2022). Although there has been a great literature devoted to the investigation of the effects of financial literacy on the individual financial condition, yet there are scarce studies that addresses the effect of financial literacy in the entrepreneurial sectors, especially in developing nations like Pakistan (Ahmed et al., 2022).

These factors have made the environment of business in Pakistan more competitive and complex particularly in the financial aspect and as such requires higher financial competence from the owners of business. More importantly, their impact on the entrepreneurial outcomes is important to discern, especially that a Global Financial Literacy Survey by the World Bank established that almost seventy percent of the Pakistani adults are financially illiterate.

This research seeks to fill this gap by focusing on the correlation between financial literacy and success of entrepreneurs in Pakistan in ownership of small businesses. With respect to the goal of improving business people's financial literacy, this study seeks to reveal which aspects are most closely linked to success in business, and therefore contribute to the understanding of how a targeted training could be used as a catalyst to produce positive changes toward business success and ultimately economic development.

### **Research Objectives**

Namely, the following are the goals of this study;

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1. In order to evaluate the current level of financial literacy of the small business entrepreneurs in Pakistan small research questionnaire was developed.
2. Thus, the present study aims at investigating the relationship between the level of financial literacy and several indicators of success among entrepreneurs.
3. In this study, to determine the demographic factors that can predict the level of financial literacy of Pakistan's entrepreneurs.
4. To identify particular aspects of financial literacy that are correlated with the success of the business
5. With the aim to present the evidence-based recommendations for political, financial and educational authorities to improve the level of financial literacy among the entrepreneurs

### **Research Questions**

Consequently, the following research questions shall be used in this study:

1. Currently, to what extent are the small business entrepreneurs in Pakistan financially literate?
2. To what extent does financial literacy as a personal factor predict the level of entrepreneurial success among the owners of small businesses in Pakistan?
3. As for the interview questions, the following questions were used to gather data from the participants: Basic demographic questions; Business-related questions; Level of Financial literacy scale.
4. Which of these aspects of financial literacy has the strongest association with business success?
5. The following is a list of policy and educational interventions that hold the potential of improving financial literacy among the Pakistani entrepreneurs –

### **2. Literature Review**

#### **Conceptualizing Financial Literacy**

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Personal financial literacy, at first, was well define as a persons ability to apply numbers to various aspects of their life but the concept has developed into a complex notion that comprises of knowledge, attitude and behavior (Lusardi & Mitchell, 2014). According to OECD (2022) financial literacy is the amount of understanding, information, practical capability, disposition, and behaviour needed to engage efficiently in monetary affairs and thereby become financially empowered a person. This definition has also gained a wide acceptance and provides the conceptual framework for this study.

In entrepreneurship, it goes further than personal finance by including business-related skills, which include assessment of financial statements, working capital management, investment appraisal, and risk management (Eniola & Entebang, 2017). In accordance with the study of Drexler et al. (2014), it is possible to distinguish between rule-of-thumb FL and form FL as measuring different constructs that affect business results in different ways depending on certain conditions.

### **Financial Literacy and Entrepreneurial Success**

This topic has recently gained the research interest on how the level of financial literacy has an impact on the entrepreneurship traits. A number of comparative studies have therefore concluded that there exists a direct relationship between the knowledge an entrepreneur has in finance and measures of business success. Dahmen and Rodríguez (2014) stated that the frequency of reviewing the financial statements of America's small business owners put their businesses in a better financial position. Similarly, by using 1159, 1158, 1159 samples of entrepreneurs Wis & Wu (2013) was able to show that financial literacy enhanced evaluation on capital structure decision since it determined most appropriate debt to equity ratios for growth and accountability for risk.

It also reveals that the degree of change is considerably felt in developing countries where financial literacy seems to be most effective. The author, Fatoki (2014) noted the results that established that; the

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financial literacy level; and access to external financing; as well as the rate of business growth was higher among the South African entrepreneurs. Moreover, according to Nunoo and Andoh 2018 there was positive significant relationship between financial literacy and profitability and sustainability of SMEs business in Ghana.

But, surprisingly, there is scarce published work that focuses on this relationship in the case of the Pakistani population. There is a lack of prior research on financial inclusion instead of financial literacy (Khan et al., 2021) or, in other cases, financial literacy investigates only customers rather than business owners (Khalid & Khan, 2021). This research gap suggests the need to undertake the study in the context of Pakistan taking into account its economic systems, culture and education.

### **Measuring Financial Literacy**

Researchers have used different methods to assess financial literacy due to the methodological issues that still exist in the measurement of the concept. The most widely used instruments are the Big Three financial literacy questions developed by Lusardi and Mitchell (2011) based on comprehension of interest compounding, inflation, and risk diversification. Although these questions are valuable for comparing studies, they are somewhat deficient, for they cover general issues, not taking into account the context of the studies under way (Fernandes et al., 2014).

More extended set of instructions has been defined for the entrepreneur performance. OECD/INFE (2020) has expanded the assessment tools and focuses on both knowledge, behavior, and attitudes of individuals. The above global FSF was revised by Hussain et al. (2018) for Pakistani entrepreneurs, and business-specific financially related competencies included cash flow management and record keeping.

The investigation in this research uses a modified version of the OECD/INFE questionnaire, accompanied by additional items developed

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based on business relevant studies conducted in Pakistan to enhance the level of instrument validity.

### **Determinants of Financial Literacy**

This paper aims to discuss factors that have been found to determine financial literacy levels. Education level is generally significantly linked and higher education level is linked to Financial literacy, this has been supported by Lusardi & Mitchell (2014). It is also cultural and gender sensitive whereby female financial literacy is comparatively lower to that of males, especially in the developing world (Bucher-Koenen et al., 2017).

Some business factors like size, age and formality of the business can be used in the determination of financial literacy levels. It is observed that the later formal businesses are established, the higher the extent of financial literacy is likely to be among them, possibly because such businesses have more experience and access to information regarding such matters (Eniola & Entebang, 2017).

There could be other factors that are unique to the Pakistani context such as regional variation, rural and urban distribution and Islamic concepts regarding money (Arif, 2015). It is essential to know these since using such knowledge, attempts can be made for the improvement of financial literacy.

### **Conceptual Framework**

As emerging from the literature review of the study, this research uses a conceptual model explaining how financial literacy affects the success of entrepreneurship in several ways. Defined here, as is often done in the literature, financial literacy encompasses three subcategories: knowledge, attitude and behaviour. These are assumed to affect various parameters of entrepreneurs' performance such as business revenues, growth, and sustainability.

It also states that the level of financial literacy may moderate the relationship depending on the characteristics of the entrepreneur, as well as the business, including education, gender, age for the former and size,

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age, and sector of the latter. Furthermore, since external factors which cover such aspects as needing financial services, and market forces might affect the achievement, this variable may be a moderating factor.

### **3. Methodology**

#### **Research Design**

This study adopted the quantitative research method under survey research design, of a cross-sectional nature. This was done in order to establish financial literacy in a systematic manner, compare and contrast results between the samples, and perform hypothesis tests on the difference between various aspects of financial literacy and selected key success variables in the entrepreneurial population. Cross-sectional research aimed at collecting data at different enterprises simultaneously, thus presented the picture of the financial literacy level and business performance at a given period.

#### **Sampling Procedure**

The target population was the small business owners running the firms in Pakistan which are defined by Small and Medium Enterprises Development Authority (SMEDA) as those firms that have 5-50 employees and turnover less than 15 million PKR. A type of probability sampling was used to participate the four major cities of Pakistan which are Karachi, Lahore, Islamabad, and Quetta through a proportionate sampling technique. These cities were chosen to cover the geographical areas and the differently developed economy.

Chambers of Commerce consisted of the business registries as a sampling frame. Sampling of participants was done depending on business sector the business belongs to; manufacturing, retail or services, and by age of the business; 0- 3 years, 4-7 years, 8 years and above. In each stratum, a quota of enterprise was randomly sampled using a computer generated random number table. The survey sample comprised 287 small business owners and thus the response rate for the study was 71.8 percent based on the targeted 400 business owners.

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## **Data Collection Instruments**

In order to gather the relevant data, a structured questionnaire in the form of an interview was used using face-to-face approach. The questionnaire comprised four sections:

1. On the demographic and business data collected about the entrepreneur, information on age, gender, and education level of the entrepreneur were gathered alongside data on the business profile including the age, size, sector, and formality of the business.

2. Identify financial literacy level: During the empirical work, financial literacy was determined based on an adaptation of the OECD/INFE checklist, additionally, some postulates of business literacy were used. This section assessed three dimensions:

- o Financial knowledge (understanding of financial concepts, calculations, and products)
- o Spending behaviours (consumption preferences and expenditure)
- o Financial behaviors (financial practices and decision-making)

3. Entrepreneurial success measures: Collected data on multiple business performance indicators:

Profitability measures which consist of profit margin and return on investment and the tactics that explain the performance of these measures.

- o Growth (revenue growth, employment growth)
- o Sustainability (business preciosity, existence in the middle of different hardships).
- o Subjective success (entrepreneur's satisfaction with business performance)

4. Business environment patterns: Collected information on funding accessibility, programs aimed at businesses, and the overall market.

This measurement instrument was first constructed in the English language and then it was translated in Urdu by using the method of back translation. Pilot testing involved the administration of the

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questionnaire to 20 other business owners who were not part of the intended sample, and some of the questions were slightly changed after getting some feedback from the participants to enhance their suitability.

### **Data Collection Procedure**

Data was collected in Ends between May to August 2024 with the help of trained research assistants having English and Urdu both as their languages. Before engaging in the study, the respondents were explained on the details of the research project and the conditions of the study's anonymity and confidentiality and consent to participate was sought. Because of these factors, face-to-face interviews were carried out at the entrepreneurs business premises at specific agreed upon times to avoid any interjections to business activities.

Each interview lasted approximately 45-60 minutes. In attempts to improve the credibility of the findings, the obtained financial performance data were cross-checked with relevant records wherever it was feasible and where confidentiality issues did not arise. The participants were given business management pocket guide after they have finished responding to the questionnaires, and they had implied that they were contented with the compensation given to them.

### **Ethical Considerations**

The current study protocol was approved by the National University of Business and Economics Pakistan, from the Institutional Review Board. Participants read and understood that the study is voluntary and they are free to withdraw the consent at anytime without any consequences. Anonymity was ensured while analyzing the data and reporting to maintain the identity of the participants' unknown to anyone outside the research team. The collected data were archived to ensure their security by use of password and restriction of access to the data.

### **Data Analysis**

The statistical analysis was performed using a software named SPSS version 26.0. The analytical procedure included:

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1. Descriptive statistics: To provide information about the subjects and to establish the level of their financial literacy.
2. Correlation analysis: To test the extent of the relationship between financial literacy dimensions and measures of the success of the business.
3. Multiple regression analysis: For assessing the standardized beta coefficients of financial literacy and its influenced factors (demographic and business) on the level of entrepreneurial success.
4. Independent T-test and one -way between -subjects ANOVA: To compare the means of two independent groups and more than two independent groups respectively regarding financial literacy rate.
5. Business factor analysis: This is done in a bid to establish which components of financial literacy have to be given much importance as a way of determining success in business.

In view of this, prior to analysis, data was checked for missing values, outliers and for violations of the assumptions of data analysis tests. Some of the variables for this study contained missing values below 5 percent, these were completed using multiple imputation methods. Statistical significances were determined at  $p < 0.05$  for all the analysis that was carried out.

### 4. Results

#### Sample Profile

The final sample comprised 287 small business entrepreneurs across four major cities in Pakistan. Table 1 presents the demographic and business characteristics of the sample.

**Table 1: Demographic and Business Characteristics of Respondents**

Characteristic	Frequency (n)	Percentage (%)
<b>Gender</b>		
Male	203	70.7
Female	84	29.3
<b>Age Group</b>		

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18-30 years	73	25.4
31-40 years	121	42.2
41-50 years	63	22.0
Above 50 years	30	10.4
<b>Education Level</b>		
Primary or less	32	11.1
Secondary	85	29.6
Undergraduate	114	39.7
Postgraduate	56	19.5
<b>Business Sector</b>		
Manufacturing	84	29.3
Retail	106	36.9
Services	97	33.8
<b>Business Age</b>		
0-3 years	95	33.1
4-7 years	113	39.4
8+ years	79	27.5
<b>City</b>		
Karachi	97	33.8
Lahore	82	28.6
Islamabad	61	21.3
Quetta	47	16.4
<b>Formality Status</b>		
Formally registered	173	60.3
Not formally registered	114	39.7

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The demographic of the sample was specific to Pakistani entrepreneurs, among them, 70.7% were males. The majority of the participants were 31-40 years old (42.2%); however, most of the respondents have at least secondary education level (88.9%). The largest numbers were observed

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in the retail (36,9%) while services occupied 33,8% and manufacturing accounted for 29,3%. In terms of business age, most of the businesses in Nigeria were relatively new accounting for 33.1% of businesses that were less than 3 years of age While, established business accounted 27.5% of business that were 8 years and above.

### Financial Literacy Assessment

The level of financial literacy was calculated based on the overall index which included the knowledge, attitudes and behaviour indices, which ranged from 0 to 100. Testing conducted on collected samples indicated that the average financial literacy of the sample was moderate given that the sample had an average score of 58.7 SD= 14.3. Table 2 provides the results of financial literacy by the dimension and key demographic characteristics.

**Table 2: Financial Literacy Scores by Dimension and Demographic Segments**

Category	Knowledge Score	Attitude Score	Behavior Score	Overall Literacy Score
<b>Overall Sample</b>	61.2	59.8	55.1	58.7
<b>Gender</b>				
Male	63.5	60.2	57.3	60.3
Female	55.8	58.9	49.7	54.8
<b>Education Level</b>				
Primary or less	46.7	52.3	42.1	47.0
Secondary	56.9	57.6	50.8	55.1
Undergraduate	67.2	61.8	59.3	62.8
Postgraduate	73.8	67.5	68.2	69.8
<b>Business Sector</b>				
Manufacturing	58.7	58.1	54.3	57.0
Retail	60.4	59.7	53.8	58.0

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Services	64.5	61.7	57.2	61.1
<b>Business Age</b>				
0-3 years	57.8	58.3	51.2	55.8
4-7 years	62.1	60.7	56.4	59.7
8+ years	64.3	60.5	58.3	61.0

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Knowledge average of 61.2 was higher as compared to behavior average of 55.1 meaning that although the entrepreneurs had sufficient theoretical knowledge as to financial issues they were limited in their ability to actually apply this knowledge in practice. It was also apparent that there were variations across education and postgraduate educated entrepreneurs were more by 22.8 points over those with minimal education standards. Significantly, gender also played into this where the male entrepreneurs gave an average of 5.5 points higher than the female ones did.

When assessed in terms of the type of financial knowledge, there is a higher percentage of correct responses in basic numeracy area with 76.8%, while the least understood area is risk diversification where only 43.2% gave the right answer. As for categorisation of the examined financial behaviors, the most frequently reported behavior was maintenance of a budget (68.5% of respondents, on average), while the most infrequent behavior was financial planning in accordance with a plan (31.2% of respondents, on average).

### **Relationship Between Financial Literacy and Entrepreneurial Success**

As suggested by the correlation analysis, the scores obtained in the assessment of the clients' level of financial literacy were positively associated with the various parameters reflecting the achievements of entrepreneurs. Table 3, presents these correlations.

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**Table 3: Correlations Between Financial Literacy Dimensions and Entrepreneurial Success Metrics**

Success Metric	Knowledge	Attitude	Behavior	Overall Literacy
Profit Margin	0.42**	0.38**	0.51**	0.48**
Return on Investment	0.39**	0.35**	0.49**	0.45**
Revenue Growth (Past 2 Years)	0.33**	0.29**	0.45**	0.40**
Employment Growth (Past 2 Years)	0.28**	0.25**	0.37**	0.34**
Business Resilience Index	0.31**	0.36**	0.43**	0.41**
Subjective Success Rating	0.35**	0.42**	0.47**	0.45**

*Note: \*\*  $p < 0.01$*

All the aspects of financial literacy yielded a positive relationship, both at the b-level and the significance level, with entrepreneurial success factors. The closer examination of financial behaviors revealed that the relationships which were more closer to success were able to be determined easily, which are profit margin and return on investment with  $r = 0.51$  and  $0.49$  respectively. What this indicates is that pattern of behavior and actual performance as far as money matters are concerned affect business results more than does content knowledge and demeanor.

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### **Predictors of Entrepreneurial Success**

Therefore, multiple regression analysis was carried out to establish the magnitude of the influence of financial literacy On entrepreneurial success controlling for, demographic and business characteristics. As alluded earlier, the regression model incorporated profit margin as the measure of business performance, which served as the dependent variable in the study. Table 4 presents the regression results.

**Table 4: Multiple Regression Analysis Predicting Profit Margin**

Variable	Model 1 $\beta$	Model 2 $\beta$
<b>Control Variables</b>		
Gender (1=Male)	0.15*	0.09
Age	0.03	0.02
Education Level	0.27**	0.14*
Business Age	0.18**	0.12*
Business Size (Employees)	0.11*	0.08
Formality (1=Formal)	0.13*	0.07
<b>Financial Literacy</b>		
Financial Knowledge		0.19**
Financial Attitudes		0.16*
Financial Behaviors		0.33**
<b>Model Statistics</b>		
R <sup>2</sup>	0.17	0.36
Adjusted R <sup>2</sup>	0.15	0.33
$\Delta R^2$	-	0.19**
F	9.43**	17.58**

*Note: \*  $p < 0.05$ , \*\*  $p < 0.01$*

Model 1 which contained only the control variables accounted for 17% of the variance in profit margin level; What factors influenced the profit margin levels was the education level, and age of the business firm. With the addition of the financial literacy dimensions, model two accounted

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for 36% of the variance, thus it proved to be a significant improvement over model one ( $\Delta R^2 = 0.19$ ,  $p < 0.01$ ).

Out of all the financial literacy aspects, financial behaviors would show the most significant influence on LVP ( $\beta = 0.33$ ,  $p < 0.01$ ), which will be followed by financial knowledge ( $\beta = 0.19$ ,  $p < 0.01$ ) and attitudes ( $\beta = 0.16$ ,  $p < 0.05$ ). Finally, it should be highlighted that the addition of the financial literacy variables therewith decreased the importance of some of the demographic predictors, thus confirming that financial literacy is a mediator in the relationship between the attributes of the entrepreneur and business outcomes.

### **Key Components of Financial Literacy Impacting Business Success**

Possible techniques used included factor analysis to determine a set of sub-indexes as well as regression analysis that linked other variables to the independent variable in relation to the index. The financial literacy items were analysed and there were five acknowledged aspects and these were regressed against the composite entrepreneurial success index. Table 5 presents these results.

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**Table 5: Impact of Financial Literacy Components on Entrepreneurial Success**

Financial Literacy Component	Factor Loading	Standardized $\beta$	t-value	p-value
Financial Planning and Budgeting	0.78	0.39	7.42	<0.001
Credit and Debt Management	0.73	0.32	6.18	<0.001
Record Keeping and Financial Analysis	0.71	0.28	5.34	<0.001
Risk Management and Insurance	0.69	0.21	4.05	<0.001
Investment Knowledge	0.65	0.17	3.27	0.001

*Note: Dependent Variable: Composite Entrepreneurial Success Index.  $R^2 = 0.43$ , Adjusted  $R^2 = 0.41$ ,  $F = 42.31$ ,  $p < 0.001$*

As it can be observed, financial planning and budgeting turned out to be the most significant component with adjusted beta value ( $\beta = 0.39$ ,  $p < 0.001$ ), and credit and debt management with ( $\beta=0.32, p < 0.001$ ). This implies that preliminary techniques of handling money play a more profound role in the success of a business than higher level of financial concepts. Together, the five components contributed 43% of the variance in entrepreneurial success highlighting unique influence of components of financial literacy on entrepreneurs.

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Further breakdown of the results indicated that made up the financial planning component, where cash flow revealed that 73% of high performers conducted cash flow forecasting as compared to 31% of the low performers. In the same respect, concerning credit management component, knowledge on loan terms and conditions was positively correlated with acquisition of right finance as 68% of respondents who had good understanding on loan terms got credit success approve as compared to 37% who lacked such knowledge.

### **Discussion**

In this study, several conclusions related to the research objectives were made which indicate the existence of a strong influence of financial literacy on entrepreneurship success of small business owners in Pakistan. This paper provides the following insights regarding the entrepreneurship development and financial education enquiry:

This survey question aims to discover the participants' levels of financial literacy regarding the following set of questions about the general management of business:

The average level of financial literacy identified in the presented study (mean = 58.7) is similar to the levels revealed in other similar developing countries (Fatoki, 2014; Nunoo & Andoh, 2018) but indicates the high potential for increasing the literacy rates. It was found that the score of the survey related to the knowledge was higher than that of the behavioral scale, which indicates the knowing-doing gap, as the latter has full awareness of how things should be done but fails to do it. Fayolle and Matlay (2011) have mentioned this in other contexts of entrepreneurship and the call for need for more pragmatic financial literacy.

Thus, substantial gaps in FI that are associated with educational attainment replicate other forms of educational inequity in Pakistan. The observed Gender gap in financial literacy score (5.5) is parallel to other global studies by Bucher-Koenen et al. (2017) and smaller than the

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findings of Arif (2015) in general Pakistani population, which implies that the female entrepreneurs have better ability on this factor than the non-entrepreneurs females. This raises an important question regarding selection effects rather than the development of literacy due to entrepreneurship.

### **Financial Literacy as a Predictor of Business Success**

The following relationships established between financial literacy and the business performance indicators prove positive influence of financial literacy in entrepreneurship. The implication of the results showing that financial literacy has a value of  $R^2 = 0.19$  over and above the demographic variables emphasizes the practical importance of this study.

It was found that financial behaviors were proved to be more relevant when it comes to the factor having specified impact on business success; this aligns with the current studies suggesting that monetary practices prevails over knowledge as the defining factor (OECD/INFE, 2020). Altogether this result refutes the nomothetic education paradigm that solely relies on knowledge and recommends that behaviour modification has the potential of producing better business results.

### **Critical Components of Financial Literacy**

The prediction of financial planning and credit management as the most influential components is consistent with prior research that regards cash flow management as a key success factor for SMEs (Dahmen & Rodríguez, 2014). The comparatively low levels might be explained by the fact that small businesses' focus is mostly on organization's current operational needs rather than long-term investment considerations.

The fact that primary financial literacy components affect the behavior more than the specific subjects helps in identification of appropriate intervention measures. This gives an implication that there is need to ensure that for anyone implementing a financial education curriculum, they should first ensure that basic concepts are taught and

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advanced ones are taught later especially to people who have not had any previous exposure to such education when starting a business.

### **Theoretical and Practical Implications**

On a theoretical level, this paper extends the current corpus on contextualised FL by offering findings from the Pakistani context. Thus, the extent of support for the multidimensionality of the measure and the different patterns of knowledge, attitudes and behaviors contributing to these aspects of financial literacy for business results.

Thus, methodologically, it has significant implications for policies that govern the development of entrepreneurship in Pakistan. The high coefficients demonstrate that financial behaviors are promising enough to be employed in learning, which means that purely practical training techniques may be more appropriate than transferring knowledge. The above identified key components give a clear direction on what should be taught in the curriculum stating more explicitly on a concern of managing cash flows, credit, and record.

From the perspective of the financial institutions, the derived implications suggest the existence of a viable business opportunity for of the delivery of financial education programmes to enable the new generation of entrepreneurs. Hence, by increasing customers' capacities particularly in managing credit may help institutions to raise loan repayment rates and customer loyalty as well as advance overall economic goals.

### **Limitations and Future Research Directions**

Several limitations should be acknowledged. The cross-sectional design prevents conclusions about causality, and thus the observed relationship could be that financial literacy depends on business success rather. It is recommended that there should be an improvement use of longitudinal research designs in future studies to avoid ambiguity of causality. However, some of the performance measures are self-reported, which

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creates reporting errors or reporting bias; an effort was made to corroborate the data with other records when necessary.

Such a focus might be narrowed down to the limits of this study in the urban setting, while about 50 percent of the small business owners are rural in Pakistan. Further research can generalize the sample in rural areas and find out whether financial literacy affects all regions, especially urban or rural ones.

Lastly, whereas this paper established which of the components of financial literacy are favourable predictors of success, there is scarce research on the efficacy of interventions for improvement of these component. Further qualitative research that can contrast between different financial education intervention strategies will be useful for the purpose of designing.

### **5. Conclusion**

Based on the results of the study, it can be concluded that financial literacy has a positive and statistically significant effect on the success of small businesses in Pakistan. Overall, the females and business with higher levels of education show moderate level of financial literacy though disparity are observed education, gender, and business characteristics. Knowledge and attitude turn to be less influential to financial behaviors than the practical and concrete financial behaviours themselves conforming to increased priority given to the practicable application rather than the content of the know-how.

Thus, financial literacy components which embrace financial planning, budgeting and credit management has the closest link with business performance. These are more tangible general and functional approaches to financial management seem closer related to actual success of running a small business than such refined concepts.

That such relationship is tenable even after netting out demographic and business factors makes financial literacy useful for theorizing about entrepreneurial profit margin. Its effect seems more

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significant in the sample concerning young businesses and the businesses owned by the low-credentialed individuals, which indicates that financial literacy can alleviate the impact of the inexperience of business owners.

This study has some major implications with regard to the development of entrepreneurship in Pakistan. They recommend that: (1) more experiential approaches rather than an informational approach should be employed; (2) the skills which should be taught include basic practices like cash-flow management and credit; (3) more use of behavioral modification techniques than just giving out information; and (4) such initiatives should be implemented in an equitable way with special attention to low educated entrepreneurs and female entrepreneurs. From a policy perspective, it is possible to identify a range of endowments of talent which indicate that for relatively modest investment, those individuals who wish to become entrepreneurs have the opportunity to acquire relevant knowledge that can foster the creation of new businesses and help them grow. In this connection, such measures may help improve the decision-making in financial matters by entrepreneurs and thus lead to the growth of businesses, the creation of new jobs and improve economic stability in situations of crisis.

It is in this regard that future research should evaluate different types of interventions and also look at how technology could augment the skills in financial management amongst these entrepreneurs. Despite the increasing development of the environment of financialisation in Pakistan, the knowledge of how to develop the right financial competencies amongst endeavours will remain an important research question.

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