

Impact of Financial Literacy on Enterprise Risk Management in Small and Medium Enterprises: Reference to Polonnaruwa District

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Abstract

Financial literacy is important for every individual because it would help people to secure financial stability through forming healthy spending habits and doing the right investment for future needs. A large number of studies have been conducted to determine the financial literacy of different individuals such as stock market investors, employees, students, and others. This study has tried to find the financial literacy of owners of Small and Medium Enterprises (SMEs) of Sri Lanka. Because SMEs make a substantial contribution to developing the economy of the country. The objective of the study was to identify the impact of financial literacy on enterprise risk management of owners' in SMEs in Sri Lanka. A structured questionnaire was used to collect data from 95 owners of SMEs in Polonnaruwa District. Record keeping, saving, personal finance, and budgeting were used to measure financial literacy. The hypotheses of the proposed study were tested through regression analysis. Results of correlation analysis indicated that there was a significant and positive relationship between all independent variables (record keeping, saving, personal finance, and budgeting) and risk management of SME owners in Polonnaruwa District. Further, results of regression analysis indicated that financial literacy has a positive impact on enterprise risk management of SME owners in Polonnaruwa District. Thus, owners need to have enough financial education that they will be able to perform risk management practices in an efficient way.

Keywords: Financial literacy, risk management, SMEs