

FINANCIAL LITERACY AND ENTREPRENEURIAL TRAITS AS DETERMINANTS OF THE SMALL AND MEDIUM-SCALE ENTERPRISES' PROFITABILITY IN OGUN STATE

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Abstract

This study was carried out to investigate how financial literacy and entrepreneurial traits determine the profitability of SMEs in Ogun State, Nigeria. It is used a descriptive survey to obtain a structured description of the population and understand the impact of financial literacy and entrepreneurial traits on SME profitability in Ogun State. The sample consists of 1,005 SME entrepreneurs selected from 15 local government areas across the three senatorial districts of Ogun State. Five LGAs (three urban and two rural) were purposely selected from each of the three senatorial districts in Ogun State. Descriptive statistics and multiple regression analysis were used in analysing the data. Our findings reveal a low level of SME profitability. The study also found that financial literacy and entrepreneurial traits significantly contribute to SMEs' profitability in Ogun State. Based on the findings and conclusion, it was recommended, amongst others, that awareness should be created among SME entrepreneurs on the relevance of financial literacy and entrepreneurial skills through training programs in order to equip them with the financial literacy skills necessary for business operations.

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1. Introduction

The sole aim of every business is to make profit. Therefore, in order to withstand competition from firms operating in the same industry, managers of small and medium enterprises (SMEs) must consciously gear all efforts towards achieving profitability. Profitability is one of the indices of business performance and a key element of financial reporting. The profitability of a business entity indicates the ability of the entity to generate earnings for a certain period at a rate of sales, assets and capital employed in the business. For a business to stand the test of time and remain in the market, it must be consistent in achieving a certain level of profitability over time. Every business venture is expected to continue existing for the foreseeable future without significantly curtailing its scale of operations. This is premised on profits being made and ploughed back into the business for expansion and growth. However, there are several factors that can hinder a firm from achieving the required level of profitability. These factors range from the size of the firm, management style, financial literacy of the business owner, entrepreneurial traits of the business owner, and economic downturn, to mention a few. Profitability is attained through various practices such as effective corporate governance, marketing strategies that create quality products, positioning products at the top of consumers' minds, building customer loyalty, research and development, and financial management and accounting practices that build advantage. As a major area and opportunity, financial management is the art and science of managing money through planning, organising, lending and controlling financial activities to achieve organisational goals. The profitability of SMEs has, throughout the nations, been of great concern to, among others, development economists, entrepreneurs, governments, venture capital firms, financial institutions and non-governmental organisations (Eniola & Entebang, 2014). According to IGI Global, profitability refers to an entity's ability to generate earnings compared to its expenses and other relevant costs incurred during a specific period. A profitability company is a picture that measures how well the company can generate profits

from operational processes that have been implemented to ensure the company's continuity in the future (Manoppo & Arie, 2016).

One of the main obstacles to the profitability of SMEs throughout the developing world is the lack of knowledge, skills, attitude and awareness to cope with and direct the finances of their organisations in a hardy, transparent and professional way. Business people make inappropriate, inadequate and ineffective financial decisions because of a lack of financial knowledge, and time to learn about personal financial management, but also because of the complexities in financial transactions and the wide variety of choices of financial products/services. Knowing the factors that determine profitability is critical to helping managers develop effective strategies that will lead to their firm's profitability.

According to Irikefe and Opusunju (2021), financial literacy is the capacity to comprehend how money functions. It requires expertise in the knowledge and application of traditional and fundamental financial concepts and principles, such as financial planning, compound interest, debt management, profitable savings strategies, and the value of money in general. Entrepreneurs must have and be able to use budget-making abilities to get out of financial jams, the ability to track and control expenditures, debt management skills, and effective planning for retirement (Irikefe & Opusunju, 2021). Based on the preceding, one can deduce that financial literacy has to do with how a person handles money to earn it, i.e. how money is invested to make "more money." The study took cognisance of these concepts of financial literacy. It is an area that requires knowledge, skill, attitude and experience with goals to deal with the survival of the firm, profit maximisation, sales maximisation, capturing a particular market share, minimising staff turnovers and internal conflicts, and maximising wealth (Jacobs, 2001.).

Entrepreneurial traits are another factor that could influence the performance of a business, especially in the aspect of profitability. In this study, entrepreneurial traits is used interchangeably with personality traits. This is due to the role and importance of an entrepreneur in the management of a business, including SMEs. An entrepreneur is a person who plays the role of an industrialist and forms an organisation for commercial use. Hence, an entrepreneur is a change agent who creates demand and supply by forecasting the needs of society. The present situation of Nigeria, in terms of the struggle for business survival in the turbulent environment, calls for a

high need for entrepreneurs with diverse personality traits that will ensure sustainability. Pattanayak and Kakati (2021) stress that entrepreneurial traits are a set of stable patterns of behaviours through which an entrepreneur can be described and identified. Studies have identified and explained different traits that determine business performance or profitability. For instance, John et al. (2008) cited by Pattanayak and Kakati (2021), listed personality traits of the entrepreneur to include openness to experience, conscientiousness, extraversion, agreeableness, and neuroticism. Similarly, Muhammed (2017) states that the personality traits of the entrepreneur include self-efficacy, risk-taking and locus of control, while Ivan, Milica and Dorde (2018) mentioned creativity, self-efficacy and innovativeness as some of the entrepreneurial traits needed for business survival.

Profitability is the aim of every business endeavour, and SMEs are established for profit-making. In recent times, however, a sizeable number of SMEs have been struggling, while some have gone into extinction as a result of their failure to break even. Most SMEs in Nigeria die within their first five years of existence; a smaller percentage goes into extinction between the sixth and tenth year, while only about five to ten percent survive, thrive and grow to maturity. The failure of SMEs has a significant effect on the Nigerian economy because SMEs are perceived to be the key to economic growth, poverty alleviation, and employment generation. Many factors have been identified as contributing to this premature death, among which are lack of requisite knowledge in financial matters, lack of financial literacy skills, poor leadership styles of the entrepreneur, and the traits possessed by the entrepreneur, amongst others. Moreover, SMEs seem to be generally characterised by limited capital. In addition, they usually lack the requirements to assess the various funding options open to business firms. However, in their efforts to expand and grow their businesses, SME owners engage in various credit options which further exposes them to financial risks. This is because most SMEs find it difficult to fulfil their financial obligations to their various creditors, thereby resorting to early liquidation in order to pay their debts with the business's assets. Furthermore, SMEs are weak and confront much competition from their larger counterparts. These usually put them in poor strategic positions because they lack the wherewithal to withstand such competition, like a qualified and skilled workforce, adequate professionalism, limited capital and other resources. These expose them to serious strategic risks which limit their chance of survival.

Unfortunately, most SMEs have been trapped in a vicious cycle of poor financial performance, which is measured by their profitability. The key to building great wealth is having great knowledge to act on and great wisdom to know which course of action is the best. Many researchers who have conducted financial literacy focused on personal finance and failed to relate it to business management. They look at bookkeeping literacy, ratio analysis banking services and their effects on personal and household finance. This study, therefore, seeks to find out how financial literacy and the entrepreneurial traits of the SME entrepreneur affect the profitability of SMEs in Ogun State.

The general objective of the study is to investigate how financial literacy and entrepreneurial traits determine the profitability of SMEs in Ogun State, Nigeria. The specific objectives of the study are as follows:

1. To determine the level of profitability of SMEs.
2. To determine SME entrepreneurs' financial literacy level.
3. To determine the nature of entrepreneurial traits possessed by SME entrepreneurs.
4. To determine the contribution of financial literacy to SMEs' profitability.
5. To determine the contribution of entrepreneurial traits to the profitability of SMEs.

2. Literature review

The risk theory of profit is propounded by F. B. Hawley in 1893. He believed that those who have the risk ability in dynamic production have a sound claim on the reward called profit. Risk in business may arise due to obsolescence of a product, sudden fall in prices, introduction of a better substitute by a competitor and risk due to fire, war, etc. Hawley considered risk-taking as an inevitable element of production, and those who take risks are more likely to earn larger profits. According to Hawley, profit is simply the price paid by society assuming business risk in excess of predetermined risk. Hawley categorised profits into two parts: the compensation for the actuarial loss suffered due to several classes of risks assumed by the entrepreneur and profit representing the inducement to bear the consequences due to the exposure of risk in the entrepreneurial adventures. The theory assumes that profits arise from factor ownership as long as the ownership involves risk. Hawley believes that an entrepreneur has to assume risk to earn more and more profit.

Profitability means the ability to make a profit from all the business activities of an organisation, company, firm, or enterprise. It shows how efficiently the management can make profit by using all the resources available in the market. Toshniwal (2016) posited that the excess of input factors expressed in monetary terms is called profit. Profitability is germane to the survival of any business entity and is of significant interest to the stakeholders (owners, government, employees, and their host communities). Many companies in Nigeria, especially the manufacturing sector, have not been achieving this expectation to owners, government, employees, and their host communities in recent times (Nwosu, 2014). However, the term 'Profitability' is not synonymous to the term 'Efficiency'. Profitability is an index of efficiency and is regarded as a measure of efficiency and a management guide to greater efficiency. Though profitability is an important yardstick for measuring efficiency, the extent of profitability cannot be taken as a final proof of efficiency. Sometimes satisfactory profits can mark inefficiency; conversely, a proper degree of efficiency can be accompanied by an absence of profit. The net profit figure simply reveals a satisfactory balance between the values receive and value given. The change in operational efficiency is merely one of the factors on which the profitability of an enterprise largely depends. Moreover, there are many other factors besides efficiency which affect profitability.

Sometimes, the terms 'Profit' and 'Profitability' are used interchangeably. But in reality, there is a difference between the two. Profit is an absolute term, whereas profitability is a relative concept. However, they are closely related and mutually interdependent, having distinct roles in business. Profit refers to the total income earned by the enterprise during the specified time, while profitability refers to the operating efficiency of the enterprise. It is the ability of the enterprise to make profit on sales. It is the ability of the enterprise to get a sufficient return on the capital and employees used in the business operation. As Weston and Brigham (1975) rightly note "to the financial management profit is the test of efficiency and a measure of control, to the owners a measure of the worth of their investment, to the creditors the margin of safety, to the government a measure of taxable capacity and a basis of legislative action and to the country profit is an index of economic progress, national income generated and the rise in the standard of living", while profitability is an outcome of profit. In other

words, no profit drives towards profitability. Firms having the same amount of profit may vary in terms of profitability.

There is no generally acceptable definition of SME. This is because there are no uniform criteria to measure them in terms of capital outlay, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share, level of development and even nomenclature (Ogechukwu, 2011). These differences are from country to country, industry to industry, school to school and author to author (Fatai, 2011). According to the United Nations Environment Programme (UNEP) (2003), while some countries prefer to categorise small enterprises into three, micro, small and medium or very small, small and medium, some other countries adopt two categories of small and medium. As a result, authors from different countries have come up with different definitions of SMEs based on the classification used in their countries and the guidelines approved by their governments. In order to minimise the controversy likely to be generated by these disagreements in conceptual clarification, numerous authors have reduced the criteria to be considered for SME definition into two (Altman & Sabato, 2008; Henschel, 2009). These are theoretical and operational definitions. Henschel (2009) specifically points out that theoretical definitions of SME consider qualitative criteria such as autonomy, personal comprehensibility as well as the financial and personal engagement of at least the owner. The author further posits that operational definitions of SMEs look at quantitative criteria like annual turnover, number of employees and capital outlay. According to UNEP (2003), the European Union submits that Micro firms are those which employ less than 10 employees and with an annual turnover of about two million Euros, small firms employ less than 50 employees and with about 10 million Euros as their annual turnover while medium-sized firms employ less than 250 employees with an annual turnover of 43 million Euros. Henschel (2009) reports that an SME in the United Kingdom is a company that employs less than 250 workers, while in the United States of America, the figure is less than 500 employees. In South Africa, small businesses are categorised into four, namely, micro-enterprises, very small enterprises, small enterprises and medium enterprises (Smith & Watkins, 2012). The authors further put it that the differentiating factor between these categories is the number of employees. However, UNEP (2003) points out that advancements in

Information and Communication Technology (ICT) could make SME definitions that take a number of employees into account less relevant.

In Nigeria, a number of definitions of SMEs have been made available. Fatai (2011) opines that different authors, institutions, government agencies and policies have suggested different ways to define SMEs at various times over the years. These definitions seem to consider the various features of SMEs and the current economic situation of the country. Ogechukwu (2011) posits that different authors, scholars and schools have different ideas as to the differences in Capital outlay, number of employees, sales turnover, fixed capital investment, available plant and machinery, market share and the level of development, differences in these factors reflect in the available definitions of SMEs.

Okoli (2011) conducted an in-depth analysis of record keeping and its effect on the success of small businesses in Enugu State. 168 small enterprises made up the research sample. His research led to the finding that startups are more likely to embrace the system due to its simplicity (one entry). That most small-scale businesses fail as a result of poor record-keeping and that financial literacy and small-scale business performance are related. In conclusion, given the necessity of precisely measuring a research construct in the majority of fields. There haven't been a lot of studies that specifically address the issue of how financial literacy should be appropriately measured. The fact that none of these studies appear to have substantially impacted how financial literacy is measured is maybe even more significant.

In another study conducted by Shehu and Mahmood (2014) assess the Relationship Between Market Orientation (MO) and Business Performance of Nigerian SMEs: The Role of Organization Culture". The researchers make use of market orientation and organisational culture as the variables that influence or affect business performance. Based on the review, it was discovered that data used for the study was collected through questionnaires, whereby six hundred and forty questionnaires were administered to SME owners/managers operating in Kano, the Northwest part of Nigeria, and five hundred and eleven questionnaires were returned which represent 79.8% response rate. Correlation analysis and regression were used to test the hypotheses under study. The finding from correlation analysis shows a positive relationship between market orientation, organisational culture, and business performance. At the same time, the regression result revealed that there is no significant relationship

between orientation and SME performance, whereas the mediation test was not supported.

Thaimuta and Moronge (2014) examine the Factors Affecting the Performance of Matatu Paratransit Venture in SMEs in Nairobi County, Kenya. Management skills, entrepreneurial skills, training, and government policies affect the performance of the matatu paratransit sector in Nairobi County, and the data used for the study was collected through a questionnaire. Multiple regression was used to analyse the data, and it was performed through SPSS software. Resource-based view theory, entrepreneurship theory, economic theory of entrepreneurship, and empowerment theory were used as supporting theories for the study. The finding states that management skills, entrepreneurial skills, training, and the role of government policies influence or affect the performance of the matatu paratransit sector in Nairobi County, Kenya.

3. Methodology

The research design for this study will be a descriptive survey. This design will be used because it allows for obtaining a numerical and structured description of the population and will give a clear understanding of financial literacy and entrepreneurial traits as they affect the profitability of SMEs in Ogun State, Nigeria.

The population for this study is 31,133 registered SMEs in all the 20 local government areas of Ogun State. This figure was obtained from the Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN) 2021. The sample for this study will be 1,005 SME entrepreneurs selected from 15 local government areas across the three senatorial districts of Ogun State.

A purposive, systematic random sampling technique will be used to select the above sample size in a multi-stage procedure. Firstly, five local governmental areas (LGAs), three urban and two rural, were purposely selected from each of the three senatorial districts in Ogun State, making fifteen out of the twenty LGAs in the state. Therefore, nine urban and six rural LGAs were selected. The rationale behind the selection of more urban areas is that more SMEs are concentrated there, while the rural areas have fewer SMEs. Also, there are more registered SMEs in the urban areas than in the rural areas. The researcher went further to randomly select seventy-five SME entrepreneurs from each of the nine urban LGAs and fifty-five

from each rural LGA. The total of respondents from this selection is 1,005. The selection will be systematically made from a list of registered SME entrepreneurs made available by the Justice Development and Peace Commission (JDPC) in collaboration with Gesellschaft für Organisation, Planung und Ausbildung mbH, GOPA, i.e. Society for Organisation, Planning and Training, a consulting firm in charge of training and developing SMEs in Ogun State.

The researcher exploited the avenue of the training organised for SME entrepreneurs by the Justice Development and Peace Commission (JDPC) in collaboration with Gesellschaft für Organisation, Planung und Ausbildung mbH, GOPA in accessing the respondents. At different times of the training organised in Ijebu-Ode and Abeokuta, the researcher, with the help of two research assistants and staff of the trainer organisation, elicited information from the entrepreneurs who were already in the database and physically present at those trainings. Instruments were given and retrieved from the respondents after two days, i.e, the last training day.

4. Result and discussion

Table 1 provides a further description of data based on the gender and location of the SME entrepreneurs who participated in the study.

Table 1

Demographical Data of Respondents

| Variable | Frequency | Percentage (%) |
|-----------------|-------------|----------------|
| Location | | |
| Urban | 675 | 67.2 |
| Rural | 330 | 32.8 |
| Total | 1005 | 100 |
| Gender | | |
| Male | 604 | 60.1 |
| Female | 401 | 39.9 |
| Total | 1005 | 100 |

Source: authors' contribution

It was revealed that 330 respondents, which constitute 32.8 per cent, were rural SME entrepreneurs, while 675, which constitute 67.2 per cent, were urban SME entrepreneurs. According to data displayed in Table 1, out of the 1005 SME, 604, which constitute 60.1 percent,

were male entrepreneurs, while 401, which constitute 39.9 percent, were female.

4.1. Answering the Research Questions and Discussion

Research Question One: What is the level of profitability of SMEs in Ogun State?

It is noticed that there is a low level of profitability of SMEs in Ogun State because the mean score of 13.096 is greater than the median of 13.000 (see Table 2).

Table 2
Descriptive Statistics of the Level of Profitability of SMEs in Ogun State

| SMEs' Profitability | Statistics | Std. Error |
|---------------------|------------|------------|
| Mean | 13.096 | 0.047 |
| Median | 13.000 | |
| Variance | 2.240 | |
| Std. Deviation | 1.497 | |
| Minimum | 9.000 | |
| Maximum | 16.000 | |
| Range | 7.000 | |
| Skewness | 0.389 | 0.077 |
| Kurtosis | 0.024 | 0.154 |

Source: authors' contribution

This result shows that there is a low level of profitability among most of the SMEs entrepreneurs in Ogun State. This finding is in tandem with the report of Akanno, Emejuru and Khalid (2017), who reported that there is a low level of profitability among the majority of SMEs in South-East Nigeria, which is affected by the level of financial literacy. This is contrary to the finding of Olutunla and Obamuyi (2008) who found that high profitability, increased loans, and growth in size of SMEs remain important and significant factors that impact the success and size of business.

Research Question Two: What is the level of profitability of SMEs in Ogun State based on gender and location?

According to data in Tabel 3, it is noticed that both male and female SME entrepreneurs, as well as urban and rural entrepreneurs, recorded low levels of profitability in Ogun State their mean scores being greater than the median score (see Table 3). This result shows

that there is a low level of profitability among SME entrepreneurs in Ogun State irrespective of gender and location.

Table 3
Descriptive Statistics of the Level of Profitability of SMEs in Ogun State based on Gender and Location

| SMEs' Profitability | Gender | | Location | |
|---------------------|--------|--------|----------|--------|
| | Male | Female | Urban | Rural |
| Mean | 13.094 | 13.097 | 13.098 | 13.091 |
| Median | 13.000 | 13.000 | 13.000 | 13.00 |
| Variance | 2.241 | 2.243 | 2.246 | 2.235 |
| Std Deviation | 1.497 | 1.497 | 1.499 | 1.495 |
| Minimum | 9 | 16 | 9 | 16 |
| Maximum | 9 | 16 | 9 | 16 |
| Range | 7 | 7 | 7 | 7 |
| Skewness | 0.388 | 0.024 | 0.398 | 0.370 |
| Kurtosis | 0.391 | 0.009 | 0.008 | 0.040 |

Source: authors' contribution

Research Question Three: What is the level of financial literacy of SME entrepreneurs in Ogun State?

The results in Table 4 show that there is a high level of financial literacy among SMEs in Ogun State.

Table 4
Descriptive Statistics of the Level of Financial Literacy of SME Entrepreneurs in Ogun State

| Financial Literacy | Statistics | Std. Error |
|--------------------|------------|------------|
| Mean | 46.862 | 0.126 |
| Median | 47.000 | |
| Variance | 15.940 | |
| Std. Deviation | 3.990 | |
| Minimum | 36.000 | |
| Maximum | 57.000 | |
| Range | 19.000 | |
| Skewness | 0.113 | 0.077 |
| Kurtosis | 0.428 | 0.154 |

Source: authors' contribution

Research Question Four: What is the level of financial literacy of SME entrepreneurs in Ogun State based on gender and location?

According to data displayed in Table 5, there is a high level of financial literacy among male and female SME entrepreneurs as well as among urban and rural entrepreneurs because the mean scores are less than the median score (47.000). This result shows a high level of financial literacy among the SME entrepreneurs in Ogun State irrespective of gender and location.

Table 5
Descriptive Statistics of the Level of Financial Literacy of SME Entrepreneurs in Ogun State based on Gender and Location

| Financial Literacy | Gender | | Location | |
|--------------------|--------|--------|----------|--------|
| | Male | Female | Urban | Rural |
| Mean | 46.854 | 46.873 | 46.865 | 46.854 |
| Median | 47.000 | 47.000 | 47.000 | 47.000 |
| Variance | 15.985 | 15.911 | 16.022 | 15.821 |
| Std Deviation | 3.998 | 3.988 | 4.003 | 3.977 |
| Minimum | 38 | 38 | 38 | 38 |
| Maximum | 57 | 57 | 57 | 57 |
| Range | 19 | 19 | 19 | 19 |
| Skewness | 0.111 | 0.118 | 0.122 | 0.094 |
| Kurtosis | 0.430a | 0.445 | 0.416 | 0.478 |

Source: authors' contribution

Research Question Five: What is the nature of the entrepreneurial traits of SME entrepreneurs in Ogun State?

Data are displayed in Table 6, below.

Table 6
Descriptive Statistics of the nature of Entrepreneurial Traits of SME Entrepreneurs in Ogun State

| Entrepreneurial Traits | Statistics | Std. Error |
|------------------------|------------|------------|
| Mean | 59.773 | 0.182 |
| Median | 60.000 | |
| Variance | 33.359 | |
| Std. Deviation | 5.770 | |
| Minimum | 45.000 | |
| Maximum | 69.000 | |
| Range | 24.00 | |
| Skewness | 0.618 | 0.077 |
| Kurtosis | 0.032 | 0.154 |

Source: authors' contribution

According to data displayed in Table 6, the mean (59.773) is less than the median (60.00), which means there is a high level of entrepreneurial traits among SME entrepreneurs in Ogun State. This finding aligns with the report of Muhammed (2017) that there is a high level of entrepreneurial traits (self-efficacy, risk-taking, and locus of control) among entrepreneurs that positively affect the profitability of their businesses.

Research Question Six: What is the nature of entrepreneurial traits of SME entrepreneurs in Ogun State based on gender and location?

The results are displayed in Table 7, below.

Table 7

Descriptive Statistics of the nature of Entrepreneurial Traits of SME Entrepreneurs in Ogun State based on Gender and Location

| Entrepreneurial Traits | Gender | | Location | |
|------------------------|--------|--------|----------|--------|
| | Male | Female | Urban | Rural |
| Mean | 59.748 | 59.811 | 59.789 | 59.739 |
| Median | 60.000 | 60.000 | 60.000 | 60.000 |
| Variance | 33.665 | 32.979 | 32.968 | 34.260 |
| Std Deviation | 5.802 | 5.742 | 5.741 | 5.853 |
| Minimum | 45 | 45 | 45 | 45 |
| Maximum | 69 | 69 | 69 | 69 |
| Range | 24 | 24 | 24 | 24 |
| Skewness | 0.620 | 0.616 | 0.614 | 0.626 |
| Kurtosis | 0.039 | 0.009 | 0.010 | 0.062 |

Source: authors' contribution

According to data results, there is a high level of entrepreneurial traits among male and female SME entrepreneurs as well as among urban and rural SME entrepreneurs the mean scores being less than the median score (60.000). This result shows that there is a high level of entrepreneurial traits among the SME entrepreneurs in Ogun State, irrespective of gender and location.

4.2. Test of Hypotheses and Discussion

Hypothesis One: There is no significant contribution of financial literacy to SMEs' profitability in Ogun State.

The results of the data analysis displayed in Table 8 show the contribution of financial literacy to SME profitability.

Table 8

Summary of Regression Analysis for the Contribution of Financial Literacy to SMEs' Profitability in Ogun State

| R | R Square | Adjusted R Square | Std. Error of the Estimate | | |
|--------------|-----------------------|--------------------------|-----------------------------------|----------|--------------------|
| 0.205 | 0.042 | 0.041 | 1.465 | | |
| Model | Sum of Squares | Df | Mean Square | F | Sig. |
| Regression | 94.645 | 1 | 94.645 | 44.067 | 0.000 ^b |
| Residual | 2154.185 | 1003 | 2.148 | | |
| Total | 2248.830 | 1004 | | | |

a. Dependent Variable: **SME Profitability**

b. Predictors: (Constant), **Financial Literacy**

Source: authors' contribution

The predictor (financial literacy) accounted for 4.2% of the variance in SMEs' profitability. Since the computed significant value of 0.00 is less than the alpha significant of 0.05, the null hypothesis is hereby rejected. Therefore, it is revealed that there is a significant contribution of financial literacy to SME profitability in Ogun state. This finding signifies that financial literacy is a key factor that determines the level of SME profitability in Ogun in any economy because it reflects the level of entrepreneurial understanding of all issues connected to business finance. The knowledge, behaviour, and attitude of business owners towards finance issues go a long way in determining the performance of any business outfit, which includes profitability. This result is in tandem with the findings of (Shafinah & Vinod, 2020; and Mohammed, 2020) that there is a significant statistical correlation or relationship between financial literacy and SMEs' profitability. Similarly, Frimpong, Agyapong and Agyapong (2022) reported that financial literacy has a significant effect on the performance of SMEs, especially in the aspect of profitability. These reports and the current findings indicate that financial literacy is a significant key driver of business performance and should be developed as an inbuilt part of business activities (Effiong, 2021).

Hypothesis Two: There is no significant contribution of entrepreneurial traits to SME profitability in Ogun State.

The results of data analysis displayed in Table 9 show the contribution of entrepreneurial traits to SME profitability.

Table 9
Summary of Regression Analysis for the Contribution of Entrepreneurial Traits to SMEs' Profitability in Ogun State

| | R | R Square | Adjusted R Square | Std. Error of the Estimate | |
|--------------|-----------------------|-----------------|--------------------------|-----------------------------------|-------------|
| | 0.212 | 0.045 | 0.044 | 1.463 | |
| Model | Sum of Squares | df | Mean Square | F | Sig. |
| Regression | 101.172 | 1 | 101.172 | 47.249 | 0.000 |
| Residual | 2147.658 | 1003 | 2.141 | | |
| Total | 2248.830 | 1004 | | | |

a. Dependent Variable: **SMEs' Profitability**

b. Predictors: (Constant), **Entrepreneurial Traits**

Source: authors' contribution

The result shows an F-value of 47.249 and a computed significant value of 0.00. Furthermore, the model summary shows that $R = 0.212$, $R^2 = 0.045$ adjusted $R^2 = 0.044$ and standard error of estimate 1.463. This result shows that the predictor (entrepreneurial traits) accounted for 4.5% of the variance in SMEs' profitability. Since the computed significant value of 0.00 is less than the alpha significant of 0.05, the null hypothesis is hereby rejected. Therefore, the result indicates that there is a significant contribution of entrepreneurial traits to SME profitability in Ogun state. This result is not far from the fact that an entrepreneur is an individual with foresight and ingenuity, eager to accept the uncertainty within the framework of the economic market and actively pursue the profit motive. Most entrepreneurs seem to possess the traits of vision and innovation, which make the creation of new things possible for market attraction. This result is consistent with Muhammed (2017) report, which found that entrepreneurial attributes (self-efficacy, risk-taking, and locus of control) all have a significant positive impact on the profitability of MSMEs and that having these traits makes MSMEs more profitable. The results concur with Pattanayak and Kakati's report from 2021, which found a substantial positive association between entrepreneurial qualities and the success of SMEs. The report of Kofi, Alexander and Frank (2020) that entrepreneurial traits (conscientiousness, extraversion, agreeableness and neuroticism) significantly influence business success from both financial and growth performance perspectives while openness to

experience is insignificant in terms of impact on business success is also in agreement with this finding.

5. Conclusion and recommendations

This study was conducted to examine the contribution of financial literacy and entrepreneurial traits to SMEs' profitability in Ogun State, Nigeria. It was concluded from the data analysis that the level of profitability of SMEs in Ogun State. This is due to the poor enabling environment for businesses, which resulted in high expenses for SMEs in Ogun State. Also, there is a high level of financial literacy and entrepreneurial traits among SME entrepreneurs in Ogun State. The findings also concluded that there is a relative and composite significant contribution of financial literacy and entrepreneurial traits to SMEs' profitability in Ogun State. Also, it was concluded that gender and location significantly moderate the contribution of financial literacy and entrepreneurial traits to SMEs' profitability in Ogun State.

This article was able to investigate the combined or composite contribution of financial literacy and entrepreneurial traits on the profitability of SMEs. This was identified as a gap before many authors investigated the relative contributions of the two variables, financial literacy and entrepreneurial traits, on performance.

Based on the findings and conclusion, the following recommendations were presented:

1. Awareness should be created for SME entrepreneurs on the relevance of financial literacy and entrepreneurial skills through training programs in order to equip them with financial literacy skills necessary for business operations.

2. Existing and prospective entrepreneurs should endeavour to develop and focus more on traits like risk propensity, innovativeness and self-confidence as they are found to be necessary for the effective running of a business enterprise.

3. Since businesses can get greater access to the market through technology, stakeholders should incorporate ICT as one of the components of financial literacy and provide training on how it can be used to promote financial literacy in Business.

4. Through the Ministry of Commerce, state governments, in collaboration with non-governmental Organizations (NGOs), should provide capacity building for SME entrepreneurs to enhance and

appreciate their inborn personality traits for higher business profitability.

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