FINANCIAL LITERACY AS A DETERMINANT OF SOUND FINANCIAL MANAGEMENT AMONG YOUNG ENTREPRENEURS

Dr. Shruti S. Gupte
Pre-Incubation Program Manager Desai
Sethi School of Entrepreneurship,
IIT Bombay
DOI: https://doi.org/10.64558/bllp/238122cbaasl

ABSTRACT

Financial literacy is increasingly recognized as a foundational skill for entrepreneurial success. Young entrepreneurs, often driven by innovation and enthusiasm, may lack the necessary financial knowledge to manage business operations effectively. This paper examines financial literacy as a key determinant of sound financial management among young entrepreneurs. It explores the relationship between financial knowledge, decision-making, and the sustainability of entrepreneurial ventures. Through a review of literature and analytical discussion, the study identifies major gaps in financial awareness, highlights the consequences of poor financial management, and proposes measures to strengthen financial literacy through education, mentorship, and institutional support. The findings underscore the importance of integrating financial education into entrepreneurship development programs to enhance the financial decision-making capabilities of emerging entrepreneurs.

Keywords: Financial literacy, financial management, young entrepreneur's entrepreneurship education, sustainability, financial decision-making.

INTRODUCTION

In recent years, the entrepreneurial ecosystem has become a key driver of economic growth, innovation, and employment generation. Young entrepreneurs, in particular, represent a dynamic force capable of transforming ideas into viable enterprises. However, while technical and creative skills are often emphasized, financial management capabilities remain a critical yet overlooked factor in entrepreneurial success. Financial literacy — the ability to understand and effectively use financial skills such as budgeting, investing, and managing debt — plays a central role in ensuring that entrepreneurs make informed and rational financial decisions. Inadequate financial knowledge can result in poor cash flow management, over-leverage, and unsustainable business models, leading to early business failure. According to various studies, a significant proportion of start-ups fail within the first five years, often due to mismanagement of financial resources rather than lack of innovation. This paper investigates the extent to which financial literacy influences sound financial management practices among young entrepreneurs.

LITERATURE REVIEW

Financial literacy has been defined by the OECD (2018) as a combination of awareness, knowledge, skill, attitude, and behavior necessary to make sound financial decisions. Lusardi and Mitchell (2014) argue that financial literacy not only improves personal financial outcomes but also enhances business survival by equipping entrepreneurs with the ability to evaluate financial opportunities and risks. Financially literate entrepreneurs are better positioned to interpret financial statements, evaluate funding options, and maintain profitability. Studies show a positive correlation between financial literacy and business performance indicators such as growth and capital efficiency. Sound financial management entails effective cash flow monitoring, cost control, and investment planning. Entrepreneurs with higher levels of financial literacy are more adept at maintaining records, preparing budgets, and forecasting financial outcomes.

RESEARCH OBJECTIVES AND QUESTIONS

Objectives:

- To assess the role of financial literacy in influencing financial management among young entrepreneurs.
- To identify the financial areas where young entrepreneurs exhibit the most significant knowledge gaps.
- To propose strategies for enhancing financial literacy as a tool for improving entrepreneurial sustainability.

Research Questions:

- How does financial literacy impact the financial management practices of young entrepreneurs?
- What are the primary barriers preventing young entrepreneurs from acquiring financial literacy?
- What measures can improve financial literacy levels and, consequently, sound financial management?

METHODOLOGY

This paper employs a qualitative and descriptive research approach supported by a review of secondary data from published literature, case studies, and institutional reports. Information was collected from peer-reviewed journals, OECD and World Bank reports, entrepreneurship development frameworks, and training program evaluations. The focus was on studies conducted within the last decade to ensure contemporary relevance.

Findings and Discussion

Financially literate entrepreneurs display greater awareness of cost structures, maintain detailed records, and regularly review performance metrics. This discipline reduces financial uncertainty and strengthens long-term planning. Lack of financial literacy limits entrepreneurs' ability to prepare business plans and communicate financial viability to investors or lenders. Those with higher literacy levels can negotiate credit effectively, utilize financial instruments judiciously, and attract investment through transparent reporting. Entrepreneurs with a solid understanding of financial principles are better at evaluating business risks, comparing financing alternatives, and managing debt.

RECOMMENDATIONS

- Integration into Entrepreneurship Education: Financial literacy modules should be a compulsory part of entrepreneurship and management courses.
- Mentorship and Capacity Building: Business incubators and accelerators should pair young entrepreneurs with financial mentors.
- Government and Institutional Support: Policymakers should collaborate with financial institutions to design simplified credit and investment awareness programs.
- Use of Digital Learning Tools: Online financial literacy platforms and mobile applications can make financial learning more engaging.
- Periodic Assessment: Establishing a financial literacy index for entrepreneurs can help track progress.

CONCLUSION

Financial literacy is not merely an ancillary skill but a fundamental determinant of sound financial management and entrepreneurial success. Young entrepreneurs who possess strong financial knowledge are more capable of managing cash flow, controlling costs, and making strategic investments. Developing financial literacy among young entrepreneurs should be treated as an investment in economic sustainability.

REFERENCES

- Adomako, S., & Danso, A. (2014). Financial literacy and firm performance: The moderating role of financial capital availability and resource flexibility. International Journal of Management and Business Research, 4(3), 163–179.
- Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. Journal of Economic Literature, 52(1), 5–44.OECD. (2018). OECD/INFE Toolkit for Measuring Financial Literacy and Financial Inclusion. Paris: OECD Publishing.
- Rasmussen, E., & Sørheim, R. (2006). Action-based entrepreneurship education. Technovation, 26(2), 185–194.
- World Bank. (2020). Improving Financial Capability and Inclusion in Developing Countries. Washington, DC: World Bank Group.