

Impact of Financial Capability on Financial Stress of Small and Medium Entrepreneurs in Sri Lanka: Special Reference to the Western Province

Jayasekara, B.E.A.

Department of Science for Technology, University of Sri Jayewardenepura, Sri Lanka.
eranga@sjp.ac.lk

Abstract

A significant role is played by Small and Medium Enterprises in creating employment worldwide. Nevertheless, the sector has failed to achieve the desired level of growth despite its unexpected success as a result of significant issues dealt in each individual nation. The main limiting factor for the reduction in growth of Small and Medium Entrepreneurs is the level of financial stress encountered because of financial incapability and rising commitments. Hence the question surfaces on the impact of financial capability on financial stress of Small and Medium Entrepreneurs in Sri Lanka. The present research is primarily focused on measuring financial capability based on a variety of variables ranging from financial resources, financial self-efficacy and financial management competency. Small and Medium Entrepreneurs residing in three districts of the Western Province namely Colombo, Kalutara and Gampaha were chosen to collect the primary data by a questionnaire distributed and the required number of 250 respondents for the sample study were singled out by the stratified proportional random sampling method. Subsequently the data was analyzed using the IBM SPSS- 23 and AMOS. According to the study results, Small and Medium Entrepreneurs residing in Sri Lanka possess higher levels of financial capability and lower degree of financial stress. Further, the Small and Medium Entrepreneurs in Sri Lanka demonstrated a significant level of financial management competency, financial self-efficacy and a moderate number of financial resources. In conclusion the researcher concludes that financial capability has a direct moderate level significant negative impact on financial stress. Finally, study recommends SME should develop their financial skills and capabilities to overcome the financial stress.

Keywords: *Financial capability, Financial stress, Financial issues, Small and medium entrepreneurs*

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Correspondence: eranga@sjp.ac.lk

ORCID of authors: Jayasekara, B.E.A.- <https://orcid.org/0009-0004-7433-5353>

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Introduction

The definition of a SME varies widely from country to country and within an individual country, depending on each business sector ranging from natural resources, agriculture, services, manufacturing and retail (Economic and Social Commission for Asia and the Pacific, 2009). The SME sector displays immense potential to provide remedies for poverty and unemployment issues in developing countries. The potential to build on promotion and development of SMEs is now seen by majority of the nations in the South Asian region. Despite, its success the sector suffers from a high failure rate worldwide and is yet to provide the desired level of contribution (Rathnasiri, 2015). The failure of SME businesses can be deduced in part due to the lack of availability of optimal resource combinations, mismanagement of opportunities (Moore, Mao, Zhang, & Clarke, 1997), restricted financial access (Rathnasiri, 2015), poor market conditions (Stewart & Raphael, 2003), adverse liquidity positions of smaller firms (Sutton, 1997), unbeatable competition (Pennings, Lee, & Witteloostuijn, 1998), isolation, inadequacy of skilled labor (Lussier, Bandara, & Marom, 2016), inaccurate pricing, lack of demand and institutional support (Drucker, 2007), lack of innovation and required skill levels of Entrepreneurs (Richard, Pire, & Malek, 2006).

SME has been defined. In Sri Lanka by the National Policy Framework for SME Development in 2015 formulated by Ministry of Industry and Commerce (2015) as Enterprises with employees less than three hundred (300) and annual turnover not in excess of Rupees Seven hundred and fifty (750) million. Micro Enterprises has categorized by the same policy in Sri Lanka as those engaging less than ten (10) employees and annual turnover below Rupees fifteen (15) million. A total of 90 percent of the aggregate number of ventures in the nation are Small and Medium sector Enterprises which contribute 70 percent of

the GDP (USD sixty billion (60 billion) and 45 percent of the combined work is split among all segments of the economy ranging from essential, auxiliary and tertiary and establishing business opportunities by opening doors for the talented, semi gifted and untalented individuals (Daily FT, 2015); (Ministry of Industry and Commerce, 2016). The total number of establishments in SME sector of Sri Lanka is eighty-one thousand five hundred and thirty-one (81,531) according to the survey conducted by Department of Census and Statistics in 2013/14 (2015) on SME sector, while providing livelihood to nearly nine hundred seventeen thousand one hundred and seven (917,107) persons. However, the development of small and medium undertakings and extensions are compelled by different challenges in local context, emerging from numerous territories varying from physical infrastructure, access to finance, access to information and advice, regulatory framework, access to markets, level of technology. business development services, intellectual property rights, industrial relations, labor legislation, technical and managerial skills, linkage formation and environmental issues (Ministry of Industry and Commerce, 2015); (Rathnasiri, 2015); (Amaradiwakara & Gunatilake, 2014); (Premaratna, Priyanath, & Kodippiliarachchi, 2017); (Central Bank of Sri Lanka, 2018). Another key constraint apart from the above constraints in the development of Small and Medium Entrepreneurs is poor financial practices followed resulting from the tendency to issue cheques with insufficient funds in the bank, regret marketing purchases, less likely to save regularly, anxiety, make minimum payments, increased probability to pay interest which are the variables identified as the main causes of financial stress (Amaradiwakara & Gunatilake, 2014); (Akhter & Zaman, 2015) ; (Premaratna, Priyanath, & Kodippiliarachchi, 2017); (Central Bank of Sri Lanka, 2018). Financial stress result directly from bad financial practices (Hayhoe, Leach, Turner, Bruin, &



Lawrence, 2000) and inability to meet financial responsibilities (Tacheuchi, Williams, & Adair, 1991) which will inevitably lead to increased negative health issues (Nelson, Lust, Story, & Ehlinger, 2008), (Kubzansky & Kawachi, 2000), (Gallo & Matthews, 2003). Numerous initiatives have been adopted by the Government of Sri Lanka to establish a SME bank and a SME Authority to function as the apex bodies for the development of the SME sector, organize structured programs for SME education, introduce various credit schemes, and are empowered to translate academic best practices into practical business measures and implement varied policies for the development of Small and Medium Enterprises (Ministry of Enterprise Development, 2005). Currently no proper solution has been provided for the level of financial stress faced by the Small and Medium Entrepreneurs in Sri Lanka (Premaratna, Priyanath, & Kodippiliarachchi, 2017); (Sri Lanka Economic Association, 2017); (Department of Development Finance, 2019). Recent studies conducted in developing countries have revealed that, apart from income poverty, inadequate financial knowledge, lack of financial management competency and financial incapability have led to increased financial stress among Small and Medium Entrepreneurs (Marmot, 2004); (Wilkinson, 2005); (Jang, 2015). Seeking financial advice will result in reduced financial stress among Financially educated entrepreneurs (Hanna, Stuart, Jodi, & Montalto, 2014). Therefore, to seek a viable explanation, based on the above, requires identification and understanding of the optimum level of financial stress, financial help seeking behavior and financial capability of Small and Medium Entrepreneurs in Sri Lanka to evaluate the impact of financial capability on financial stress and financial help seeking behavior. Financial capability of Small and Medium Entrepreneurs was measured in the present study based on existing findings, financial self-efficacy, financial resources and

financial management competency whereas the tool financial management competency was measured based on factors such as cash management, credit management, general management and retirement planning.

Theoretical Gap

Majority of the theories on the subject of financial stress, are limited to Sociology and Psychology (Kessler, House, & Turner, 1987), (Jenkins, Bebbington, & Brugha, 2009). Self-efficacy plays a mediator role between stress and help seeking behavior as proven by the Cognitive Theory of Stress and Coping (Lazarus & Folkman, 1984) whereas the Roy Adaptation Model (RAM) (Roy, 1970) emphasized that, greater self-efficacy led to a reduction in financial stress. Besides self-efficacy numerous other factors have effects on financial stress and financial help seeking behavior as justified by several empirical studies (McQuaid & Egdell, 2010); (Grable & Joo, 1999); (Gentile, Linciano, & Soccorso, 2016); (Baron & Kenny, 1986). Bagwell's framework and social cognitive theory have revealed that individuals' financial knowledge and confidence direct impact financial capability leading to more rational financial decisions being taken (Bagwell, Hestbaek, Harries, & Kail, 2014). However, these models fail to consider that, apart from financial self-efficacy, other factors influence financial capability and in addition do not discuss the negative aspects of financial incapability and ways of improving financial capability of an individual. Currently the impact of financial capability on financial stress faced by Small Medium Entrepreneurs is not clearly explained by any unique theoretical model. Therefore, this study is not able to combine data from past studies to formulate an empirically tested model. Inconclusive research results will be the outcome due to the absence of theoretical grounding and different authors have used varied theoretical perspectives to examine the rise of small and medium industries and entrepreneurship.



Hence it can be reasoned that is a theoretical gap in the reference field.

Empirical Gap

The key constraint limiting the development of the SME sector is financial stress encountered resulting from bad financial practices of Small and Medium Entrepreneurs as proven by recent studies carried out (Martin & Staines, 2008); (Wijewardana., 2018) and significant number of SME do not possess sufficient knowledge to extract information from financial statements (Alattar, Kouhy, & Innes, 2009); (Lussier, Bandara, & Marom, 2016); (Sri Lanka Economic Association , 2017), (Alfoqahaa, 2018); (Department of Development Finance, 2019). The study by Dong-Ho Jang, (2015) emphasized that financial stress can be significantly reduced by increasing financial capability and a further study by HanNa Lim, Stuart J. Heckman, Jodi C. Letkiewicz and Catherine P. Montalto (2014) revealed a significant positive relationship between financial stress and financial help seeking behavior and a positive association among individuals with high financial efficacy. Therefore, we are yet to understand th collective effects of correlates or predictors on financial help seeking behavior. Majority of the possible predictor variables need to be included within an exploratory study framework to comprehend the real picture of how financial capability, affect financial stress and financial help seeking behavior of Small and Medium Entrepreneurs. Further, the existing literature consist of contradictory findings. Vast number of studies point out the negative results of financial stress (Abdel, Rowena, & Robyn, 2010); (Alfoqahaa, 2018) and according to Hans Selye (1974) and J.R. Abascal, D. Brucato, L. Brucato (2001) the optimum level of stress required to motivate an individual to perform and deal with challenges of life indicate that stress has a positive impact and the same research has proved that stress increases an Entrepreneur's mental alertness, awareness,

enhanced superior cognitive and behavioral performance (Rice., 1999). Additionally, S.C. Kobasa, S.R. Maddi, S. Kahn (1982) (cited in (Abascal, Brucato, & Brucato, 2001)) indicate that stimulation generated from stress is useful and should not be overloaded. Further, a significant positive relationship exists between performance and arousing stress (Abascal, Brucato, & Brucato, 2001). However, the same study revealed that performance begins to deteriorate beyond the optimum level (Rice., 1999). Financial stress is associated with negative effects and is an alarm on the real economy whereas some studies regard the emergence of financial stress as a process (Mark & Ying, 2006).

Knowledge Gap

Studies carried out on Small Medium Entrepreneurs, discussed socio-demographic characteristics ranging from family (Ghina, 2014), competitiveness in the industry (Utami & Lantu, 2014); (Ismail, 2014) involvement in the investments (Baronchellia, Bettinellia, Boscob, & Loanec, 2016), technical factors (Abidin, Raja, Raja, Ibrahim, & Idris, 2014); (Yeboah-Boateng & Essandoh, 2014), service quality, policy compliance (Al-Ttaffi, Abdul-Jabbar, Intan, & Baru, 2016), internal processes (Ismaila, Domil, & Isa, 2014) and performance measurement (Ibrahim, 2014). Financial constraints, poor financial management in terms of business failure of SME (Sherazi, Iqbal, Asif, Kashif-ur-Rehman, & Shah, 2013) were areas of research in developing countries where there have not been studies on financial stress, financial capability and financial help seeking behavior of Small and Medium Entrepreneurs. In Sri Lanka, vast number of the Small and Medium Entrepreneurs exhibit signs of financial stress and is no viable solution is available (Sri Lanka Economic Association , 2017); (Wijewardana., 2018); (Department of Development Finance, 2019); (Premaratna, Priyanath, & Kodippiliarachchi, 2017); (Department of



Development Finance, 2019). Hence, to fill the knowledge gap a study on the subject area is required.

Methodological Gap

Insignificant number of variables are contained in past literature which are considered to measure financial stress, financial capability and financial help seeking behavior (Grable & Joo, 1999); (HanNa Lim, 2014); (Jang, 2015). Population in historical research was considered as: college students (HanNa Lim, 2014); (Britt, et al., 2011), community welfare center users (Jang, 2015) and those with higher earnings distributed among the income earning levels of United States (US) population (Grable & Joo, 1999). However, only few studies (or insufficient information available) have evaluated the effects of financial capability on financial stress and financial help seeking behavior of Small Medium Entrepreneurs. In Sri Lanka vast number of existing studies on Small and Medium Enterprises have used a sample size below 150 (Fairoz, Takenouchi, & Tanaka, 2010); (Rathnasiri, 2015); (Wijewardana., 2018). Further, the data in these studies were researched using Logistics / Multiple Regressions and Pearson Correlation Analysis. Nevertheless, large number of Small Medium Entrepreneurs have not been studied by any available research conducted by using advanced statistical tools as Confirmatory Factor Analysis and Structural Equation Modeling.

Statement of Problem

It is vital to search for valid answers to the under studied problem of “What is the Impact of Financial Capability on Financial Stress of Small and Medium Entrepreneurs in Sri Lanka?” due to the absence of sufficient knowledge in stated contextual and theoretical research in analyzing financial stress, financial capability and financial help seeking behavior of Small Medium Entrepreneurs. Therefore, exploring the impact of financial capability on financial

stress and financial help seeking behavior of Small and Medium Entrepreneurs in Sri Lanka is the main purpose of the present study. Small and Medium Entrepreneurs in Sri Lanka will be able to manage their financial challenges effectively and efficiently and facilitate to expand business and expedite operations successfully as a result of achieving the main purpose of the study, ‘impact of financial capability on financial stress and financial help seeking behavior’.

Research Objectives

Determining the impact of financial capability on financial stress of Small and Medium Entrepreneurs in Sri Lanka and ascertaining the level of financial capability and financial stress of Small and Medium Entrepreneurs in Sri Lanka.

Research Questions

“What is the impact of financial capability on financial stress of Small and Medium Entrepreneurs in Sri Lanka?” and “What is the level of financial capability and financial stress of Small and Medium Entrepreneurs in Sri Lanka?”

Significance of Study

This study explores the impact of financial capability on financial stress of SMEs in Sri Lanka. Areas to improve such as financial capability and reducing financial stress can be easily identified by policy makers by using the findings of the study and provides the opportunity for policy makers to rethink the innovation promotion of SME policies in the country. Further, the study findings provide overall understanding and awareness regarding strengths of SMEs and their success. The current research enables the reader to focus on a much broader perspective by evaluating the contribution of financial capability building programs on the levels of financial stress.



Literature Review

Past Studies on Small Medium Entrepreneurs in the World

Numerous studies have deonstated the obstacles faced by Small and Medium Entrepreneurs in the achievement of business success as lack of knowledge and skills, challenges relating to finance, professional malpractices etc. and is further confirmed where both internal and external factors have led to their business failure (Fatoki, 2014). The internal factors, are largely withi the control of the organization including lack of management experience, poor staff training, lack of functional skills (e.g., planning, leading, organizing and controlling), development and poor attitudes towards customers whereas external factors are those largely beyond the control of the organization and include non-availability of a logistics chain and high cost of distribution, competition, rising costs of conducting business, lack of finance and crime (Fatoki, 2014).

Past studies on Small and Medium Entrepreneurs in Developing Countries

Small and medium enterprises represent majority of the enterprises in developing countries where there is a high failure rate of SME (Lussier, Bandara, & Marom, 2016) and studies conducted in developing countries like Nigeria, South Africa, Turkey 99.9% of all enterprises belong in the SME category and major causes of business failure arose due to ill-advised financial management, lack of management experience, poor staff training and development, poor attitudes towards customers, non-availability of a logistics chain and high cost of distribution, lack of functional skills, intense competition, rising costs of conducting business, lack of finance and crime, different strategic financial management practices, poor investment decisions, inadequate social infrastructures, lack of networking opportunities, lack of

access to finance and inadequate government support, inadequate social infrastructures, lack of managerial skills and multiple taxation (Agwu, 2014); (Karadag, 2015); (Chimucheka & Mandipaka, 2015). Historical studies carried out in South Asian countries, ranked financial constraints as the highest obstacle for the achievement of business success (Sherazi, Iqbal, Asif, Kashif-ur-Rehman, & Shah, 2013); (Ayyagari, Demircuc-Kunt, & Maksimovic, 2012) and significant number of the companies fulfill their capital requirements from immediate family or indirect sources (Ping, 2014); (Daskalakis, Jarvis, & Schizas, 2013). In addition, large city firms are unlikely to access formal credit and tend to increase the debt proportion obtained from informal sources, which is converse to what people assumed since the benefits of locating to city with better infrastructure like such as near a railway or main road doesn't help firms to recover from their financing troubles. Firms in rural areas, in contrast use personal capital and access bank debts and are less likely to use informal sources (Nhung & Nguyen, 2013). Financing constraints are experienced essentially in informal firms, which tend to be smaller in size, and although tend to be less productive than formal enterprises, they contribute significantly to economic activity and employment (Ayyagari, Demircuc-Kunt, & Maksimovic, 2010a) and account for approximately 74 percent of all MSMEs in the world, and around 77 percent of all MSMEs in developing countries. Many firms choose to remain informal as they lack the incentives or capacity to formalize even though a sizable amount of the unmet demand for credit lies in the informal sector (Peer, Pinar, & Martin, 2013) and in developing countries access to finance is regarded as the key constraint for SME growth (World Bank, 2015). Further, external and formal financing is available for larger matured firms in developing countries (Ndagijimana & Okech, 2014), whereas collateral and the availability of internal finance were key factors in determining SME's access to bank loans (Wangmo, 2016)



since 50% of the SMEs do not have ready access to formal credit (World Bank, 2015). Rather than financing externally SMEs growth should commence from an enterprise's internal resources, including owner's human capital, expertise and customer relationship development as per the study by (Nguyen, 2014);(Wangmo, 2016).

Factors of behavioral finance such as debt and risk attitudes, networking firms, present-biased preferences and overconfidence had impacts on the firms' credit participation and credit source selection (Kanyare & Mungai, 2017); (Sherazi, Iqbal, Asif, Kashif-ur-Rehman, & Shah, 2013) ; (Anh, 2015) and studies in developing countries like Kenya, Vietnam and Malaysia pinpointed that non-financial factors like personal traits of SME owners/managers and support the study conducted (Hasnah, 2013) in Malaysia that character (or management's knowledge of business), having collateral and capacity of borrowing by SMEs has significant effect on the likelihood of the loan approval by the financial institutions. Conversely, the Vietnam study (Nguyen, 2014) revealed that when obtaining loans owner's characteristics are less important, unlike where the accounting book and the size of firms matter in the way that smaller firms are likely to deal with higher financial constraints than larger companies. However, in Malaysia, the study by (Ramlee, 2013) stated that a firm owner's characteristics including age, ethnic, professional experience significantly impact the ability to borrow from formal sources where firms employing managers/ owners who are mature in age possess higher professional experience, tend to indicate a higher probability to access external funds formally than others (Nhung & Nguyen, 2013) led to the issue of financing gap which has emerged as a perennial issue in many developing countries.

Past Studies on Small and Medium Entrepreneurs in Sri Lanka

In Sri Lanka the rate of business failure among SMEs is 45% according to (Lussier, Bandara, & Marom, 2016), and the main reasons range from failure due to lack of business planning; budgetary controls record keeping; staff quality; basis of recruitment; commitment of owners for business management and finally issuing postdated cheques. To succeed in business the same study highlighted that owners need adequate commitment on business management, prior business planning, effective financial and human capital management practices and need to require up to date reliable accounting data. This issue has been addressed globally, majority of the financial issues arose in small and medium businesses due to the problems associated with Small and Medium Entrepreneurs and in Sri Lanka numerous studies narrowed their focus on Small and Medium Entrepreneurs and business development. Study by (Fairouz, Takenouchi, & Tanaka, 2010) revealed there is significant moderate level correlation between pro-activeness, risk appetite, innovativeness, overall entrepreneurial orientation and market share growth whereas the research conducted by (Wijewardana., 2018) stated that vast number of the SMEs in Sri Lanka failed due to external factors such as legal framework, access to finance, limited scope to penetrate the export market, and labor market force and it was highlighted by the same study that financial management is vital for SMEs to skillfully and quickly recognize the symptoms of business performance, capacity and commitment of the owners and invisible energetic effort in the SME performance development (Wijewardana., 2018). Financial management and contemplatory financial management practices are necessary to improve the profitability as per the study done by (Rathnasiri, 2015) and he highlighted that the entrepreneur education has significant influence on business performance. Further, Central Bank of Sri Lanka has outlined that inadequate capital, inadequate sales, inadequate institutional credit facilities, use of outdated technology, improper accounting



techniques, promotional competencies and inattentiveness of small businesses as the crucial issues faced by the Sri Lankan SME sector (Central Bank of Sri Lanka, 2018).

Research Methodology / Materials and Methods

Conceptual Framework

Financial capability was viewed by theoretical and empirical findings as a psychological factor, having significant effects on financial stress and financial help seeking behavior (Ha & Kang, 2013); (Kye & Yoo, 2013). Financial capability as evidenced by the literature is positively related to financial self-efficacy (Vyvyan, Levon, & Brimble, 2014), (Gyarmati, et al.,

2014); financial management competency (FINRA Investor Education Foundation, 2009); (Sanja, Brimble, & Freudenberg, 2013); financial resources (Atkinson, McKay, Collard, & Kempson, 2007); (Arrowsmith & Pignal, 2010).

Financial stress is borne resulting from the lack of financial capability (Taylor, 2009), (David & Mantler, 2004), (Jang, 2015). The literature emphasized that financial resources, financial self-efficacy, financial help seeking behavior are inversely related to financial stress (Sonya, Anthony, Fernatt, Stutz, & Tibbetts, 2015); (Heckman, Lim, & Montalto, 2014); (Sonya, Anthony, Fernatt, Stutz, & Tibbetts, 2015).

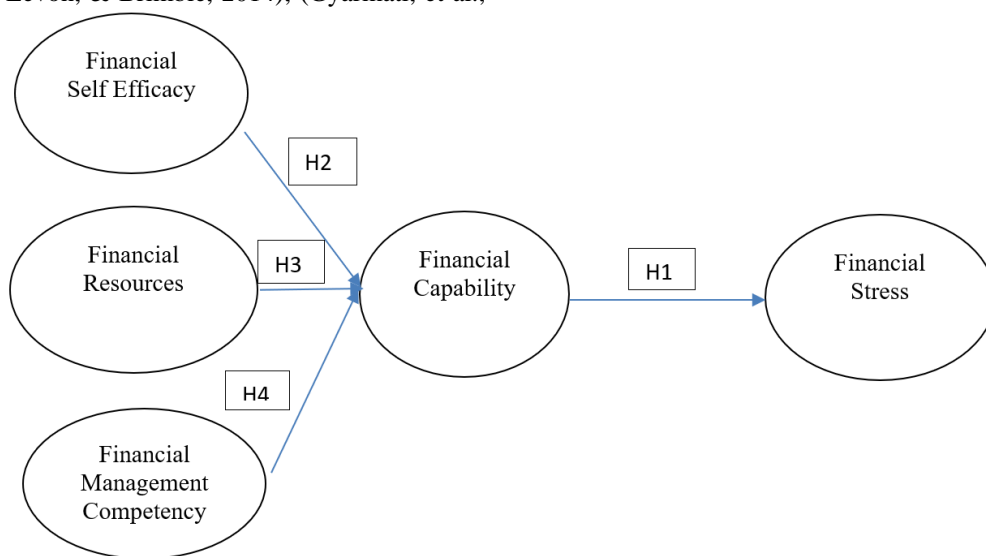


Figure 01: Conceptual Framework

Hypotheses of the study

The following hypotheses depicted in following table was developed by

considering relationship expressed in the past literature:

Table 01 : Hypotheses of the study

Hypotheses		Literature
H1	Financial Capability will be negatively related to Financial Stress	(Kim. & Garman, 2003);(David & Mantler, 2004) ;(Kimball & Shumway, 2006); (Lenton & Mosely, 2008);(Taylor, 2009);(Jang, 2015)
H2	Financial Capability will be positively related to Financial Self Efficacy	(Financial Services Authority, 2006);(Atkinson, McKay, Collard, & Kempson, 2006); (Ormrod, 2006) ;(Vyvyan, Levon, & Brimble, 2014);(Gyarmati, et al., 2014)
H3	Financial Capability will be positively related to Financial Resources.	(Atkinson, McKay, Collard, & Kempson, Levels of financial capability in the UK, 2006), (Atkinson, McKay, Collard, & Kempson, 2007), (Fessler, Schurz, Wagner, & Weber, 2007), (O' Donnell & Keeney, 2009), (FINRA Investor Education Foundation, 2009)(Arrowsmith & Pignal, 2010)
H4	Financial Capability will be positively related to Financial Management Competency	(Financial Services Authority, 2006), (Atkinson, McKay, Collard, & Kempson, Levels of financial capability in the UK, 2006), (Atkinson, McKay, Collard, & Kempson, 2007), (Johnson, 2007)(Fessler, Schurz, Wagner, & Weber, 2007), (O' Donnell & Keeney, 2009), (FINRA Investor Education Foundation, 2009)(Arrowsmith & Pignal, 2010), (Sherraden, 2010)(McKay, 2011), (Sanja, Brimble, & Freudenberg, 2013)

Definition of Financial Capability:

The definition of financial capability is a “set of knowledge, attitudes, habits, and confidence in one’s power to exercise control over finances that a consumer should possess in order to build his or her financial wellbeing” (EVERFI, 2018).

Concept of Financial Stress

Financial stress results from persistent financial and economic issues faced by individuals which creates psychological hazards leading to physical deterioration. As per the research findings by (Northern, O'Brien, & Goetz, 2010) Financial stress can be defined as the inability of an individual to meet his or her financial obligations but can

also spread to include emotional or psychological effects.

Sampling Design

The population of the study is defined based on the operational definition according to the following criteria.

1. The entrepreneur should be a Sri Lankan citizen
2. SME business should be registered in the relevant authority
3. Annual turnover should be above LKR15.Mn and below LKR750.0Mn
4. Employees should more than 10 & less than 300
5. Not considered subsidiaries of holding companies



In excess of 75% of the small and medium enterprises are registered as per the findings of (Department of Census and Statistics, 2015) and no study has been carried out by the Department of Census and Statistics on small and medium enterprise population after 2015. However, the total of small and medium enterprises population is 81,531 (small 71,126 + medium 10,405) according to the data available.

Power Analysis and Sample Size Determination

Since the sample affects precision and replicability of results and since chi-square tests and goodness of fit indices are equally sensitive to sample size in CFA and SEM (Kline, 2016) it is necessary to consider large sample for SEM and CFA. The power analysis which calculates using Macros Sample Size Calculator recommends 118 as the minimum sample size for this research. Since the Root-mean-square error of approximation (RMSEA) is sensitive to sample size for small sample sizes RMSEA is oversensitive in rejecting true population models (Byrne, 2012). The Monte Carlo study by (Curran, Bollen, Paxton, Kirby, & Chen, 2002) reported that when N was >200 the RMSEA was more accurate for models with moderate misspecifications and also (MacCallum & Hong, 1997) propose that RMSEA is more efficient than the GFI and AGFI for power analysis (Loehlin & Beaujean, 2017). Further, if the sample size is small observed indicators per factor could improve its impact (Marsh, 1998); (Marsh & Hau, 1999). The study by (Hoe, 2008); (Singh, Junnarkar, & Kaur, Measures of Positive Psychology, 2016) recommended that minimum sample sizes in absolute N s were the first rules of thumb, suggesting that any $N > 200$ offers adequate statistical power for data analysis. Hence the current study sample size 250 is adequate for CFA/SEM analysis.

Sampling Method

The study used quantitative research approach to achieve the objectives and data was collected by a sample survey and the sample was derived based on stratified proportional random sampling method (Ary, Jacobs, & Sorensen, 2006), (Singh, 2007). To provide all Small and Medium Entrepreneurs an equal chance of being selected in the sample, the researcher considered this geographical distribution of Small and Medium Entrepreneurs in Western Province based on three districts namely Colombo, Gampaha and Kalutara (inclusive of 48 administrative bodies, 6 Municipal Councils, 13 Urban Councils and 29 Pradeshiya Sabhas (Western Provincial Council, 2020)) and employed stratified proportional random sampling method to select the 348 respondents as the sample of the study.

Data Collection Process of Study

The respondents were contacted during the month of November 2019 and distributed the questionnaire among 348 and data were collected from December 2019 –February 2020 from 250 sample (148 respondents in Colombo, 72 from Gampaha and 30 from Kalutara).

Statistical Methods and Tools

The researcher used structural equation modeling and confirmatory factor analysis in this study. To answer the research questions defined, researchers developed specific objectives and to achieve each stated objective systematically selected descriptive and inferential statistical methods. The present study selected descriptive statistics; frequencies, percentages and pie charts to explain the level of financial capability and financial stress of Small and Medium Entrepreneurs in Sri Lanka. To achieve the objective of understanding how financial capability influenced financial stress of Small and Medium Entrepreneurs in Sri



Lanka, through sample data, the present study selected regression analysis to check the influence of financial capability on financial stress. The recent studies carried out on financial capability and financial stress used structural equation models (Jang, 2015),(Heckman, Lim, & Montalto, 2014).Owing to the overwhelming advantages of confirmatory factor analysis over regression analysis, the researcher selected the CFA analysis and SEM analysis models generating and comparison approaches to achieve the objectives of the study.

Results & Discussion

Exploratory Data Analysis (EDA)

To comply with the statistical procedure discussed in chapter three it is important to test the data used in primary assumptions and make remedial actions when there is violation of assumptions. The Univariate normality was tested using critical ratios of skewness, kurtosis rule of thumb 3 and normal Q-Q Plot. Multivariate normality was tested using Mardia's kurtosis and calculated using AMOS 21 and if the critical value is below 1.96 it would indicate that there is no significant violation of multivariate normality (George & Mallery, 2006). The

stem and leaf diagrams were used to detect univariate outliers and Mahalanobis Distance cutoff p-value .001 was used to identify multivariate outliers. Multicollinearity was tested using tolerance (need to be > 0.10) and VIF (should be < 10) whereas Bivariate scatter plots and R values of linear / non-linear curve estimations were used to test linearity and homoscedasticity.

The level of financial capability, financial stress and financial help seeking behavior of small and medium entrepreneurs in Sri Lanka

I. Financial Capability (FC):

The research identified three financial capability factors based on the literature: financial self-efficacy, financial resources and financial management competency as possible predictors of financial capability of Small and Medium Entrepreneurs. According to Table 2, 71.6% of Small and Medium Entrepreneurs indicated medium level of FC while balance 28.4% were having a high level of FC and there were no respondents showing low level of FC. Therefore, the results revealed that majority of Small and Medium Entrepreneurs had moderate level FC (M=164.94, SD=18.0657).

Table 02: Respondent small and medium entrepreneur's level of FC

	Level	Score Range	Frequency	%	Cumulative %
1	Low	35-104	0	0	0
2	Medium	105-175	179	71.6	71.6
3	High	176-245	71	28.4	100.0

Mean: 164.94 Median: 166.0 Mode: 160.0 SD: 18.0657

i. Financial Self Efficacy (FSE):

The researcher used FSE to measure a respondent's ability to control his/her own finances. According to Table 3, 44% of the Small and Medium Entrepreneurs had high

level of FSE and 50% were having medium level of FSE while only 6% of the respondents scored low on the level of FSE. Therefore, the results proved that the majority of Small and Medium Entrepreneurs had moderate level FSE (M=28.3, SD=6.59).



Table 03: Respondent small and medium entrepreneur's level of FSE

	Level	Score Range	Frequency	%	Cumulative %
1	Low	6-17	15	6	6
2	Medium	18-29	125	50	56
3	High	30-42	110	44	100.0

Mean: 28.3 Median: 28.0 Mode: 26.0 SD: 6.5908

- ii. Financial Resources (FR): a low level of FR, 42.8% demonstrated
The researcher used FR to measure how medium level of FR while the balance 22.4%
people manage their resources and make scored a high level of FR. Hence majority of
financial decisions. Data illustrated in Table the respondents had a medium level of
4 shows that 34.8% of the respondents scored financial resources (M=10.836, SD=4.5541).

Table 04: Respondent small and medium entrepreneur's level of FR

	Level	Score Range	Frequency	%	Cumulative %
1	Low	3-8	87	34.8	34.8
2	Medium	9-14	107	42.8	77.6
3	High	15-21	56	22.4	100.0

Mean: 10.8360 Median: 11.0 Mode: 5.0 SD: 4.5541

- iii. Financial Management Competency (FMC): respondents had a medium level of FMC and
Financial management competency generally 42.4% had high level of FMC. There were no
refers to a set of behaviors relating to cash respondents who had low level of FMC
management, credit management, retirement which justified that majority of the
planning and general management. respondents had medium level of FMC
According to Table 5, 57.6% of the (M=125.804, SD=13.8575).

Table 05: Respondent small and medium entrepreneur's level of FMC

	Level	Score Range	Frequency	%	Cumulative %
1	Low	26-77	0	0	0
2	Medium	78-130	144	57.6	57.6
3	High	131-182	106	42.4	100.0

Mean: 125.8040 Median: 127.5 Mode: 147.0 SD: 13.8575

- a) Cash Management: having medium level of CM. There were no
Cash management is defined as a process of respondents who had a high level of CM.
managing cash inflows and outflows Hence the majority of the respondents had
efficiently and effectively. According to medium level of CM (M=35.4760,
Table 6, 12% of the respondents had a low SD=4.4398).
level of CM and the remaining 88% were

Table 06: Respondent small and medium entrepreneur's level of CM

	Level	Score Range	Frequency	%	Cumulative %
1	Low	10-29	30	12	12
2	Medium	30-49	220	88	100
3	High	50-70	0	0	0

Mean: 35.4760 Median: 36.0 Mode: 38.0 SD: 4.4398

b) Credit Management (CRM):

Credit management usually refers to the management of personal debts effectively and efficiently. Table 7 illustrates that 88% of the respondents had a high level of CRM and 12% were having medium level of CRM. There were no respondents who had a low

level of CRM. Therefore, the results validate that the central tendency of the CRM score was at the higher end of the scale and majority of the respondents had high CRM skills to control their credit more effectively and efficiently (M=35.58, SD=4.7932).

Table 07: Respondent Small and Medium Entrepreneur's level of CRM

	Level	Score Range	Frequency	%	Cumulative %
1	Low	6-17	0	0	0
2	Medium	18-29	30	12	12
3	High	30-42	220	88	100

Mean: 35.58 Median: 36.0 Mode: 38.0 SD: 4.7932

c) Retirement Planning (RP):

Retirement planning can be defined as a process of determining retirement income to achieving retirement goals. Table 8 illustrates that, 100% of the respondents had a high level of RP and results indicated that the central

tendency of RP score was at the higher end of the scale. Hence all the respondents had high RP skills to determine retirement income and achieve retirement goals (M=19.28, SD=1.6511).

Table 08: Respondent small and medium entrepreneur's level of RP

	Level	Score Range	Frequency	%	Cumulative %
1	Low	3-8	0	0	0
2	Medium	9-14	0	0	0
3	High	15-21	250	100	100

Mean: 19.28 Median: 20.0 Mode: 21.0 SD: 1.6511

d) General Management (GM):

General management is defined as managing revenue and cost elements effectively and efficiently. Data illustrated in Table 9 showed that 64% of the respondents had high level of GM and balance 36% of the

respondents were having medium level of GM while there were no respondents who had low level of GM. The results emphasized that the central tendency of GM score is at the higher end of the scale and that majority of the respondents had high level of GM (M=35.544, SD=4.4595).



Table 09: Respondent small and medium entrepreneur's level of GM

	Level	Score Range	Frequency	%	Cumulative %
1	Low	7-20	0	0	0
2	Medium	21-34	90	36	36
3	High	35-49	160	64	100

Mean: 35.544 Median: 36.0 Mode: 35.0 SD: 4.4595

II. Financial Stress (FS):

Financial stress is an outcome of persistent financial and economic issues faced by individuals which create psychological hazards resulting in physical deterioration. As per the findings depicted in Table 10, 58.8% respondents had a low level of FS

compared to 36.8% of the respondents who had medium level of FS. There were only 11 respondents (4.4%) who scored a high level of FS. Hence a significant proportion of the respondents had a low level of FS (M=35.544, SD=4.4595).

Table 10: Respondent small and medium entrepreneur's level of FS

	Level	Score Range	Frequency	%	Cumulative %
1	Low	10-30	147	58.8	58.8
2	Medium	31-50	92	36.8	95.6
3	High	51-70	11	4.4	100

Mean: 29.64 Median: 28.0 Mode: 24.0 SD: 10.5144

Correlation

Table 11: Pearson product movement correlation

	FC	FS	FMC	FR	FSE
FS	-0.69	1			
FMC	0.28	-0.193	1		
FR	0.204	-0.141	0.057	1	
FSE	0.778	-0.536	0.218	0.159	1

According to the Table 11, there is a statistically significant positive relationship between financial stress and financial stress category 1; financial stress category 2; financial stress category 3; financial stress category 4; financial stress category 5 at 0.001. The positive relationship indicated that financial stress and 5 financial stress categories are moving the same direction. The correlation coefficients (r) of the 5 categories were more than 0.90 and it indicates the high magnitude relationship between financial stress and 5 financial stress

categories. There is statistically significant positive relationship between financial management competency and cash management (CM); credit management (CRM); general management (GM) at 0.001. The positive relationship indicated that financial management competency and CM; CRM; GM are moving the same direction. The correlation coefficients (r) of the CM; CRM; GM were more than 0.90 and it indicates the high magnitude relationship between financial management competency and CM; CRM; GM. Also, there is



statistically significant positive relationship between financial self-efficacy and 3 financial self-efficacy categories at 0.001. The positive relationship indicated that financial self-efficacy and 3 categories are moving the same direction. The correlation coefficients (r) of the 3 categories were more than 0.90 and it indicates the high magnitude relationship between financial self-efficacy and 3 financial self-efficacy categories. Furthermore, there is statistically significant positive relationship between financial resources and 3 financial resource categories at 0.001. The positive relationship indicated that financial resources and 3 categories are moving the same direction. The correlation coefficients (r) of the 3 categories were more than 0.90 and it indicates the high magnitude relationship between financial resources and 3 financial resources categories. According to the data depicted in Table 11 other than relationship with financial stress, all the other variables in the conceptual model indicate low to moderate level significant positive relationship. Except financial help seeking behavior and 4 categories, all other variables in the conceptual model indicate low to moderate level significant negative relationship with financial stress.

Confirmatory Factor Analysis

CFA was used to test the data collected for this study and was examined for validity and reliability # in order to test the measurement model of financial capability, financial stress and financial help seeking behavior and test the measurement model prior to testing the structural model. The measurement model of financial capability, financial stress and financial help seeking behavior constructs were tested in first order confirmatory multiple factors. The researcher needed to test the measurement model by using first order confirmatory-multiple factors based on five constructs. The researcher followed all five steps during the CFA and extracts of the analysis are presented in this section of the chapter. The data set of the present study already complied with the assumptions of a CFA including multivariate normality, sufficient sample size ($n > 200$), correct a priori model specification, and data collected from a random sample. However, prior to performing CFA, the Kaiser-Meyer-Olkin (KMO) test and Bartlett's test of sphericity were conducted to evaluate the factorability. The KMO measure of sampling adequacy was 0.855 (approx. chi square 8699.209) and the significance of Bartlett's test of sphericity was less than 0.001, meaning that CFA can be applied to the obtained dataset.

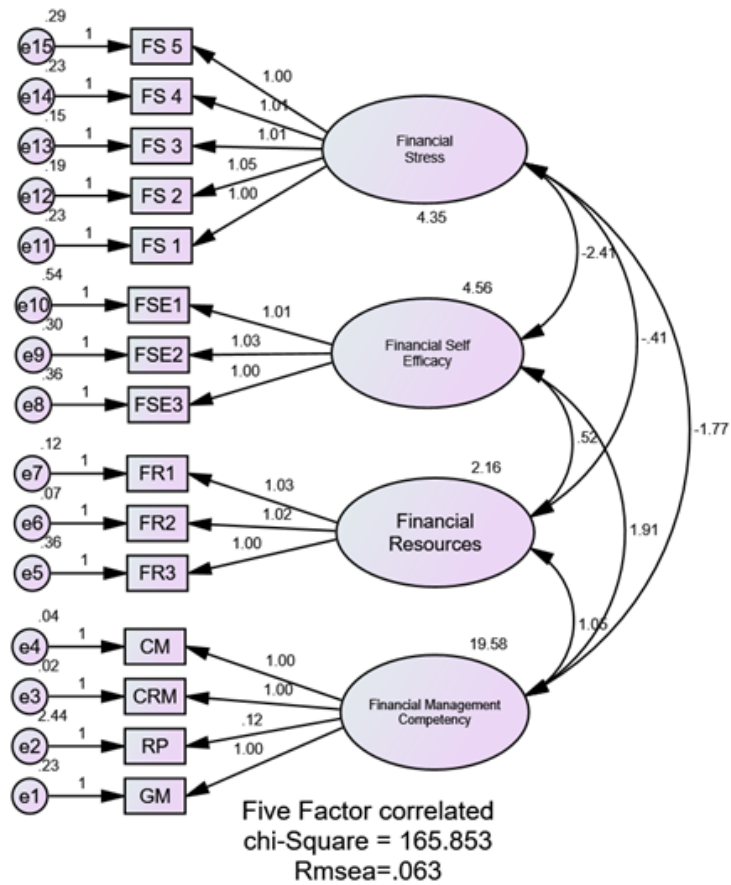


Figure 02 : Confirmatory Factor Analysis

Table 12: Output of CFA

	Chi Square	df	Rmse	Lower	Upper	CFI	SRMR
Uncorrelated	395.073	152	0.08	0.07	0.09	0.972	0.1792
Correlated	165.853	142	0.063	0.05	0.072	0.985	0.0334

Structural Equation Model Analysis

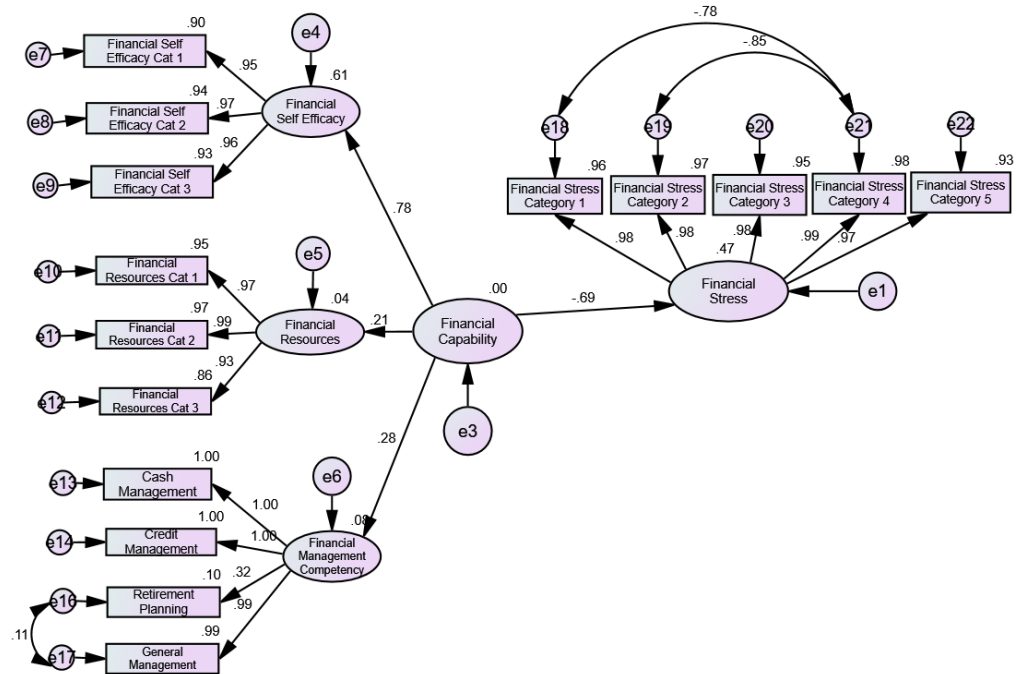


Figure 03: Structural Equation Model diagram

According to the estimated SEM diagram, financial capability was a significant negative predictor of financial stress ($\beta = -.69$) at 0.001 significant level. Especially the hypothesized predictors of financial capability, financial self-efficacy ($\beta = .78$), financial management competency ($\beta = .28$) have revealed the significant regression coefficient at the 0.001 level and financial resources ($\beta = .20$) has displayed the significant regression coefficient at the 0.05 level. Since all relationships between variables were significant at 0.05 or 0.001, there was no requirement to perform model modification. Further, in the model GFI was .923 and indicated satisfactory amount of the covariation among the observed variables that can be accounted by the hypothesized model.

Model Fit

Past study by (Hu & Bentler, 1999) had established cutoff criteria for fit indices of Structural Equation Models (Hu & Bentler, 1999). Table 28 shows the major model fit indices and their cutoff values recommended by (Hu & Bentler, 1999), (Byrne, 2009) and (Kline, 2016) with the estimated values of the model of the present study. The present study model satisfactorily achieved values over and above the cutoff criteria for all indices. The Hoelter's CN (0.05) was higher than 200 and revealed the adequacy of the sample size. Further, standardized residual covariance matrix had no values higher than the cutoff value of 2.00 (Byrne, 2009) and Standardized Root Mean Square Residual (SRMR) value $0.0336 < 0.08$ is within the acceptable range criteria (Byrne, 2009). The maximum standardized residual covariance value was 1.510. Therefore, the model satisfactorily matched with the sample data of the variance and covariance matrix.



Table 13:Model fit Indices

Measure	Index	Cut-off for good fit	Value in the model	Decision
Absolute Fit Indices	$\chi^2(df, N), P$	$p>0.05$	188.7(125,250) $P=.000$	Satisfied
	χ^2/df	<3.00	$\chi^2/df = 1.510$	Satisfied
	GFI	$>.90$	GFI=0.923	Satisfied
	AGFI	$>.90$	AGFI=0.894	Satisfied
	SRMR	$<.05$	SRMR = 0.0336	Satisfied
	Hoelter's CN (.05)	>200	Hoelter's CN = 201	Satisfied
	AIC	Lower the Better	AIC =280.7	Satisfied
Non centrality-based indices	CFI	$>.95$	CFI=.993	Satisfied
	RMSEA(LO90, HI90)	$<.08$	RMSEA = .045(.031,.058)	Satisfied
	PCLOSE	$>.50$	PCLOSE = .716	Satisfied
Relative Fit Indices	IFI	$>.90$	IFI=.993	Satisfied
	TLI	$>.95$	TLI=.991	Satisfied
	NFI	$>.90$	NFI=.979	Satisfied

Table 14:Regression Weights

			Standardize Estimate	Estimate	S.E.	C.R.	P
Financial Stress	<---	Financial Capability	-0.69	-.870	.199	-4.375	***
Financial Self Efficacy	<---	Financial Capability	0.778	1.339	.403	3.332	***
Financial Resources	<---	Financial Capability	0.204	.185	.070	2.643	.008
Financial Management Competency	<---	Financial Capability	0.28	.747	.225	3.321	***
FS Category 1	<---	FS	0.978	.953	.017	55.828	***
FS Category2	<---	FS	0.984	1.050	.019	55.828	***
FS Category3	<---	FS	0.977	1.000	.019	51.634	***
FS Category4	<---	FS	0.987	1.018	.023	44.809	***
FSE Category3	<---	FSE	0.962	.971	.024	39.884	***
FSE Category2	<---	FSE	0.971	1.030	.026	39.884	***
FSE Category1	<---	FSE	0.946	1.008	.029	34.504	***
FR Category3	<---	FR	0.926	.978	.028	34.880	***

			Standardize Estimate	Estimate	S.E.	C.R.	P
FR Category2	<---	FR	0.986	1.022	.029	34.880	***
FR Category1	<---	FR	0.974	1.006	.020	51.064	***
FS Category5	<---	FS	0.967	.994	.021	46.446	***
CRM	<---	FMC	0.999	.998	.007	137.95	***
CM	<---	FMC	0.999	1.000	.007	134.07	***
RP	<---	FMC	0.316	0.118	.007	5.279	***
GM	<---	FMC	0.994	1.000	.007	134.077	***

Based on Table 14 financial capability is negatively significant ($\beta=-0.69$, $CR=-4.375$, $p=0.000$) at 0.001 level and can be concluded that financial capability has a direct negative impact on financial stress of Small and Medium Entrepreneurs. The table displays the un-standardized estimate, its standard error (S.E.) and the estimate divided by the standard error (C.R. or Critical Ratio). The standard error of the estimate represents the average distance that the observed values fall below the regression line. Standard error is the standard deviation of the sampling distribution of statistics. The probability value associated with the null hypothesis that the test is zero is displayed under the P column. The regression coefficients in this model varied significantly from zero beyond the .001 level. The standardized estimates allowed the researcher to evaluate the relative contributions of each predictor variable to each outcome variable. The present study Hypothesis 1 (**H1**) stated that financial capability is negatively related to financial stress and the objective of the study to determine the influence of financial capability on financial stress of Small and Medium Entrepreneurs in Sri Lanka. The analysis of the structural equation model showed that financial capability significantly contributes towards financial stress and the results indicated that there was a direct negative relationship between financial capability and financial stress. In addition, the standardized regression weights indicated when financial capability increases by 1

standard deviation, financial stress decreases by 0.69 standard deviation. Hence hypothesis 1 was supported in this study.

According to past studies financial capability was measured using 3 variables in this study consisting of financial self-efficacy, financial resources and financial management competency. Financial self-efficacy was positively significant ($\beta=-0.778$, $CR=3.332$, $p=0.000$) at 0.001 level of significance. Therefore, it can be concluded that financial capability has a direct positive impact on financial self-efficacy of Small and Medium Entrepreneurs. The table displays the un-standardized estimate, its standard error (S.E.), and the estimate divided by the standard error (C.R. or Critical Ratio). The standard error of the estimate represents the average distance that observed values fall below the regression line. Standard error is the standard deviation of a sampling distribution of statistics. The probability value associated with the null hypothesis that the test is zero is displayed in the P column. The regression coefficients in this model vary significantly from zero beyond the .001 level. The standardized estimates allowed researchers to evaluate the relative contributions of each predictor variable to each outcome variable. The present study Hypothesis 2 (**H2**) financial capability is positively related to financial self-efficacy. The analysis of the structural equation model showed that financial self-efficacy significantly contributed to financial

capability and the results indicated there was a direct positive relationship between financial capability and financial self-efficacy. Further, standardized regression weights indicated that when financial capability rises by 1 standard deviation, financial self-efficacy also rose by 0.778 standard deviation. Thus hypothesis 2 was supported in this study.

Financial resources are positively significant ($\beta=-0.204$, $CR=0.070$, $p=0.008$) at 0.01 level and can be concluded that financial capability has a direct positive low-level impact on financial resources of Small and Medium Entrepreneurs. The regression coefficient in this model varied significantly from zero to beyond the .01 level. The standardized estimates allowed the researcher to evaluate the relative contributions of each predictor variable on each outcome variable. The present study Hypothesis 3 (**H3**) stressed that financial capability is positively related to financial resources. The analysis of the structural equation model revealed that financial resources significantly contribute to financial capability and the results indicated there is a direct positive relationship between financial capability and financial resources. In addition, standardized regression weights indicated, when financial capability increased by 1 standard deviation, financial resources rose by 0.204 standard deviation. Therefore, hypothesis 3 was supported in this study.

Financial management competency is positively significant ($\beta=-0.280$, $CR=3.322$, $p=0.000$) at 0.001 level indicating that financial capability has a direct positive low-level impact on financial management competency of Small and Medium Entrepreneurs. The regression coefficient in this model was significantly different from zero beyond the .001 level. The standardized estimates permitted the researcher to evaluate the relative contributions of each predictor variable to each outcome variable. The present study Hypothesis 4 (**H4**) displayed that financial capability is positively related

to financial management competency. Analysis of the structural equation model exhibited that financial management competency significantly contributed to financial capability and the results confirmed there was a direct positive relationship between financial capability and financial management competency. Further, standardized regression weights indicated that when financial capability rose by 1 standard deviation, financial resources increased by 0.280 standard deviation. As such hypothesis 4 was supported in this study.

Analysis of the structural model disclosed that financial capability significantly contributed to financial stress ($\beta=-0.69$, $CR=-4.375$, $p=0.000$) at 0.001 level where it can be concluded that financial capability has a direct moderate level negative impact on financial stress of Small and Medium Entrepreneurs in Sri Lanka.

Implications and Conclusions

The current study was similar to previous study findings by (Jang, 2015) which proved that High levels of financial capability is the primary reason to reduce financial stress of Small and Medium Entrepreneurs in Sri Lanka which justified that financial capability contributed significantly to reduce the level of financial stress whereas high level of financial management competency led to the decrease of financial stress (Jang, 2015). Financial self-efficacy, financial resources and financial management competency negative impacted financial stress (Lazarus & Folkman, 1984); (Letkiewicz, Domian, Robinson, & Uborceva, 2014); (Heckman, Lim, & Montalto, 2014); (Lim, Stuart, Jodi, & Catherine, 2014); (Sonya, Anthony, Fernatt, Stutz, & Tibbetts, 2015). The present study of Small and Medium Entrepreneurs based in Colombo, Gampaha and Kaluthara highlighted those high levels of financial management competency, financial self-efficacy and medium level of financial



resources directly led to the reduction of financial stress and majority of the respondents represented municipal council and urban areas. The existing study stressed that residents of municipal areas displayed higher levels of financial capability (Kimball & Shumway, 2006). During the present study financial capability was measured using 3 variables as financial self-efficacy, financial resources and financial management competency. Analysis of the structural model indicated that financial capability has a directly significant positive impact ($\beta=-0.778$, $CR=3.332$, $p=0.000$) on financial self-efficacy of Small and Medium Entrepreneurs in Sri Lanka. Further, standardized regression weights indicated that when financial capability increased by 1 standard deviation, financial self-efficacy rose by 0.778 standard deviation. Financial self-efficacy is an important psychological factor that influences human behaviors to measure financial capability (Xiao, Chen, & Chen, 2013). Historical literature evidenced that there is a positive relationship between financial capability and financial self-efficacy (Financial Services Authority, 2006);(Ormrod, 2006);(Atkinson, McKay, Collard, & Kempson, 2006);(Gyarmati, et al., 2014);(Vyvyan, Levon, & Brimble, 2014). According to the analysis the structural model indicated that financial capability has a direct low level significant positive impact ($\beta=-0.204$, $CR=0.070$, $p=0.008$) on financial resources of Small and Medium Entrepreneurs in Sri Lanka. Further, standardized regression weights indicated that when financial capability increased by 1 standard deviation financial resources will rise by 0.204 standard deviation. The financially capable individual has improved capability of controlling financial resources (Financial Services Authority, 2006) while higher financial resources significantly impacted to enhance the success of the business (Gyarmati, et al., 2014);(Prawitz & Cohart, 2016). The analysis of the structural model highlighted that financial capability has a direct low level significant positive impact ($\beta=-0.280$, $CR=3.322$, $p=0.000$) on

financial management competency of Small and Medium Entrepreneurs in Sri Lanka. Further, standardized regression weights indicate, when financial capability rises by 1 standard deviation financial resources will increase by 0.285 standard deviation. The development of financial management competency will directly uplift the financial capability of an individual (Johnson, 2007);(FINRA Investor Education Foundation, 2009);(Sanja, Brimble, & Freudenberg, 2013). The high level significant positive impact of financial self-efficacy; low level significant positive impact of financial resources and low level significant positive impact of financial management competency strengthens financial capability which enables to moderate the negative influence of financial capability on financial stress of Small and Medium Entrepreneurs in Sri Lanka. The analysis of the structural equation model details that financial capability has a direct moderate level significant negative impact ($\beta=-0.69$, $CR=-4.375$, $p=0.000$) on financial stress. The standardized regression weights indicate when financial capability increases by 1 standard deviation, financial stress will decrease by 0.69. Based on the study done by (Jang, 2015) financial capability will contribute, significantly to reduce financial stress.

Recommendations

As per the current research findings, financial capability is a critical factor for Small and Medium Entrepreneurs in Sri Lanka to triumph over financial stress in order to optimize annual turnover and thereby enhance contribution Sri Lanka's GDP. The study recommends that it is mandatory to develop financial goals and draw plans to achieve financial goals while generating alternative plans if the primary plan did not succeed. The research further recommends that a plan should be formulated by all Small and Medium Entrepreneurs to face unforeseen financial challenges when unexpected expenses arise. The study results



conveyed that it is necessary to display confidence about their ability to manage finances and recommended to implement retirement planning where the retirement plan should be reviewed periodically. The study recommends in order to build confidence to develop finance related skills to face financial challenges and manage finances effectively. The study conveyed that financial capability has a significant positive impact of on financial resources which will lead to reduce financial stress of Small and Medium Entrepreneurs in Sri Lanka. The study recommends promoting saving habits among Small and Medium Entrepreneurs in Sri Lanka as extent of savings is a key indicator of financial resources. There is significant positive impact of financial capability on financial management competency. To achieve business success the study recommends that Small and Medium Entrepreneurs should develop their skills to prepare budgets and business plans and build sufficient liquidity position to cover daily expenses. To mitigate the financial stress of Small and Medium Entrepreneurs the study suggests that they should build control over their finances and identify the need to maintain sufficient liquidity position in the business, to honor payments before set deadlines and bear unexpected expenses.

Implications of the Study

Results can be confined to body of knowledge due to the multi-disciplinary nature of the study, policies and practices of different disciplines. The present study introduces financial capability as the absolute solution for financial stress of Small and Medium Entrepreneurs in Sri Lanka and contributes to the body of knowledge of emerging disciplines of knowledge management. In order to build the financial capability of Small and Medium Entrepreneurs the outcomes of the study explain that it is required to develop skills in financial self-efficacy, financial resources and financial management competency. The study revealed that development of financial

capability among Small and Medium Entrepreneurs can be achieved by enhancing their knowledge to control finances, develop skills to setup financial goals, plans, alternative plans, face financial challenges; build confidence and provide financial education. Further the research suggests, having an independent, trustworthy financial advisor who can provide advice on how to make successful decisions and influence business goals to reduce financial stress of Small and Medium Entrepreneurs in Sri Lanka and provides the opportunity to policy makers to understand the consequences of financial stress and financial incapability. The results enable them to develop policies and improve the financial capability of the Small and Medium Entrepreneur society. Further, the study informed that Small and Medium Entrepreneurs possess a high level of financial self-efficacy, financial management competency and moderate level of financial resources. These conclusions reflect the effectiveness of cash flow handling in the business, having control over finances; ability to face financial challenges in the business, encourage retirement planning, maintaining savings accounts, developing goals and plans to maximize revenue, lack of cheque returns in the business and sufficient liquidity position in the business.

Suggestions for Future Research

Future studies will continue to perform similar examination regarding Small and Medium Entrepreneurs to broadly develop financial capability to understand financial stress in other provinces of Sri Lanka and in developing countries. Large scale quantitative studies on different samples need to be conducted island wide by adopting the same variables and include other possible socio demographic domain factors in addition to the variables considered in the present study to generalize the findings regarding the impact of financial capability on financial stress of Small and Medium Entrepreneurs. Future researchers in Sri



Lanka can analyze numerous complexities in financial capability, financial stress and financial help seeking behavior of Small and Medium Entrepreneurs, other Entrepreneurs and communities spread across the world.

Limitations of the Study

The first limitation is that the study focused primarily on Small and Medium Entrepreneurs registered in Sri Lanka. There are 1,019,681 registered SME establishments in Sri Lanka and a far greater number of unregistered SMEs operating in Sri Lanka as per the statistics, which are not covered in this study (Department of Census and Statistics, 2015). The next limitation is that the study was primarily focused on Small and

Medium Entrepreneurs registered in the Western Province of Sri Lanka. However, the obvious advantage of control that Small and Medium Entrepreneurs are exposed to the same economic environment will be an area for deliberation since the study is confined to Small and Medium Entrepreneurs in a single Province setting.

A final drawback can arise during the field survey where those respondents are normally hesitant to divulge private details regarding their financial resources, financial self-efficacy, financial management competency, financial stress and financial help seeking behavior. The researcher considers that the results of the study will not be adversely affected by this issue.

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