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FINANCIAL LITERACY, INFORMALITY, AND SMALL BUSINESS OPERATIONAL PERFORMANCE IN ZIMBABWE

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ABSTRACT

Introduction: The exponential growth of small and medium enterprises (SMEs) in many developing economies is a well-documented phenomenon in business literature. However, research indicates that the expansion of most SMEs is hindered by financial illiteracy and high levels of informality, posing significant challenges to their performance and long-term sustainability. Concerns arise from the fact that only a small fraction of these enterprises successfully transition into larger firms. This study sought to address these issues by investigating the levels of financial literacy among 120 SMEs operating in Harare and Bindura, taking into account the pervasive informality within the sector. The research also aimed to evaluate the relationship between financial literacy and SME operational performance.

Methods: Employing a quantitative approach within an explanatory research design, data collection was facilitated through a structured questionnaire. To capture the diverse landscape of SMEs operating in an informal context, both purposive and convenience sampling methods were utilized to select participants for the survey. Descriptive and inferential analyses were conducted using SPSS software.

Results: The findings of the study revealed a significant positive impact of financial literacy on SME operational performance, indicating that advanced financial literacy can contribute to enhanced business outcomes. Moreover, the research observed an improvement in financial literacy within SME operations, evidenced by increased awareness and application of financial management skills.

Conclusion and suggestion: The study recommends that efforts to promote financial literacy among SMEs should be intensified through advanced financial education initiatives, awareness campaigns, and enhanced financial inclusion strategies. Financial service providers are encouraged to play a proactive role in supporting SME growth by investing in financial awareness programs, funding educational initiatives, and actively engaging SMEs in key economic policy frameworks. Ultimately, SMEs are urged to fully embrace financial literacy as a fundamental pathway for achieving sustainable growth and long-term business success amidst the challenges of informality.

INTRODUCTION

Poor financial choices have been observed to lead to adverse financial outcomes, which can be challenging to rectify. This issue is particularly critical for small and medium enterprises (SMEs), as they must consistently make prudent financial decisions to ensure the survival of their businesses. However, despite the crucial role of financial literacy in business operations, many individuals lack awareness regarding the importance of assessing various financial products and services and selecting the most suitable options from competing providers in order to improve their financial health. For SMEs, the imperative to make sound financial decisions is non-negotiable, yet their lack of knowledge often results in frequent business closures due to financial mismanagement during their initial stages. This is problematic given the significant role SMEs play in the economic development of numerous regions worldwide.

The essential economic role played by SMEs is widely acknowledged, with research indicating their significant contributions to employment, poverty alleviation, and subsequent economic advancement (Brown, 2018). SMEs are recognized as pivotal drivers of economic progress and advancement across both developed and developing nations. Scholars and professionals alike concur that this sector fosters innovation and plays a substantial role in economic growth through the creation of job opportunities and the reduction of poverty (Finmark, 2013). Studies conducted in Zimbabwe reveal that the majority of SMEs (85%) operate informally and face financial exclusion, with many failing to maintain comprehensive records of their business transactions (Al Omairi & Matriano, 2022; Mashizha et al., 2019). Where records are kept, they are often incomplete. Mabhanda (2015) identified a prevalent lack of financial literacy among SMEs, evidenced by inadequate accounting practices. These tendencies pose significant challenges for SMEs seeking financial support from established institutions, as they often lack the capacity to develop compelling business proposals, hindering growth and increasing the risk of business failure. Al Omairi and Matriano (2022) emphasize the urgent need to address the issue of financial literacy to ensure the survival of SMEs. Yet, despite various efforts aimed at supporting SMEs, the sector continues to face challenges associated with informality and limited growth opportunities.

Studies conducted in the Organization for Economic Co-operation and Development (OECD) nations have illuminated the significant role played by SMEs in driving economic growth and promoting regional development and cohesion (Messy & Monticone, 2012). Patel and Vlaev (2019) emphasized this importance by noting that SMEs represent a staggering 99% of businesses in the European Union, a proportion echoed in other countries. The significance of SMEs is widely recognized by governments, policymakers, and individuals due to their substantial contributions to employment and

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their potential to grow into larger enterprises (Evans, 2012). Additionally, Wendy et al. (2010) highlighted the importance of a thriving SME sector in buffering economies against the cyclical impacts of international capital flows. In Zimbabwe, SMEs play a crucial role, making significant contributions to employment and ultimately enhancing living standards, constituting 65.5% of GDP through job creation.

In 2013, Zimbabwe initiated a new economic recovery plan, the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZIMASSET), with the primary objective of accelerating economic development and wealth creation (Government of Zimbabwe, 2013). Central to ZIMASSET's objectives is the recognition of the SME sector as a key economic driver with the potential to realize the plan's goals through indigenization, empowerment, and employment creation initiatives. However, the prevalence of financial illiteracy among SMEs poses a significant challenge, leading to financial errors and undesirable behaviors that render them vulnerable to sudden economic shocks (Andoh, 2012). This issue is particularly concerning given the government's focus on enhancing the role of SMEs in driving economic growth, competition, employment creation, and income redistribution through new development policies (GOZ, 2015).

Despite their crucial importance, SMEs in Zimbabwe encounter notable obstacles, with a substantial percentage ceasing operations within their initial five years, often due to issues like overtrading and financial stress (Frimpong et al., 2022). Research conducted by Mashizha et al. (2019) indicated that merely 28% of SMEs continue operating beyond the five-year mark, underscoring the widespread problem of insufficient financial knowledge and capabilities among SME proprietors. This deficiency in financial literacy contributes to suboptimal financial decision-making, further amplifying the susceptibility of SMEs to economic instabilities and impeding their long-term viability. Thus, addressing the gap in financial literacy among SMEs is imperative to unlock their full potential as catalysts for economic growth and advancement in Zimbabwe.

Financial literacy holds a pivotal role in the success of SMEs, alongside other contributing factors, which is the primary focus of this research. As noted by Syahrir et al. (2019), Zimbabwe's informal sector stands as a significant source of employment for approximately six million individuals, making a substantial contribution of US$7.4 billion to the economy. However, despite this economic impact, there is a noticeable absence of evidence suggesting that the funds generated within the informal sector are integrated into the formal banking system. The FinScope survey further underscores the significant influence of SMEs, with a total of 5.7 million jobs generated within the SME sector, mainly distributed across rural (66%) and urban areas (34%). These figures underscore the potential for wealth generation among Zimbabweans. Nonetheless, despite the apparent economic importance of SMEs, many encounter challenges in sustaining their operations beyond five years due to financial exclusion and insufficient levels of financial literacy. This study seeks to explore the role of financial literacy in elucidating the high level of financial exclusion among SMEs and its ramifications on their long-term viability.

Despite numerous efforts aimed at bolstering SMEs, the sector continues to encounter growth impediments, with many enterprises experiencing financial exclusion and shutting down within their initial five years of establishment. Instances of business closures are frequently documented in both print and electronic media outlets, as emphasized in the Zimbabwe Government's (2022) budget statement. Al Omairi and Matriano (2022) stress the pressing need to tackle the issue of financial literacy, emphasizing its pivotal role in the survival of business entities. Given the persistent hurdles confronting SMEs, this study endeavors to examine the correlation between financial literacy and the operational performance of small businesses through quantitative analysis. By delineating the components of a comprehensive financial literacy framework, the study aims to provide insights for policy interventions and programs aimed at enhancing financial literacy levels among SMEs in Zimbabwe. Despite the government's attention to the SME sector in its policy directives, there persists a gap in fully harnessing the sector's immense potential, underscoring the necessity for targeted interventions to address the underlying challenges impeding SME growth and sustainability.

LITERATURE REVIEW

Theoretical Framework

Comprehending consumer financial behavior holds paramount importance in fostering favorable characteristics in financial decision-making (Xiao, 2015). Fishbein (1975) proposed that human behavior is impacted by subjective probabilities, encompassing beliefs regarding the consequences of specific actions, societal norms, and factors influencing behavior performance. Duesenberry's (1949) Relative Income Hypothesis suggests that an individual's satisfaction from consumption is determined by their income relative to society, rather than its absolute magnitude. This hypothesis indicates that savings are influenced not by absolute income levels but by an individual's position in the income distribution percentile. Psychologists and sociologists have noted individuals' concern for status (Kuperman, 2004), suggesting that contentment is derived from relative income, leisure, and inheritances, thus shaping consumption patterns. Easterlin (1974) and Oswald (1997) further endorsed this theory, discovering that an individual's well-being is more closely linked to their relative income than their absolute income level.

In addition to psychological and sociological factors, the informality of businesses also plays a significant role in shaping consumer financial behavior. In economies where a

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substantial portion of economic activity occurs in the informal sector, such as Zimbabwe, the behavior of informal businesses and their interactions with formal financial systems can have profound effects on consumer financial decision-making. Informal businesses often operate outside of regulatory frameworks and may lack access to formal banking services, thereby influencing consumer perceptions of financial institutions and their financial behaviors. This aspect of informality is crucial to consider in understanding and addressing consumer financial behavior in such contexts.

Although Duesenberry's Relative Income Hypothesis represents progress compared to earlier theories such as Keynesian economics, it has encountered criticism on various grounds. One critique concerns the assumed positive correlation between consumption and income, suggesting that they vary in tandem. However, empirical evidence challenges this assertion, demonstrating that significant and unforeseen increases in income often result in less-than-proportional increases in consumption. There have even been instances where consumption increased despite a decrease in income (Dwivedi, 1991). Furthermore, while this theory of relative income implies that consumption patterns are irreversible, detractors argue that consumers cannot sustain dis-saving long-run wise, and consumer behavior is reversible (Dwivedi, 1991).

In the context of informal businesses, these critiques of Duesenberry's theory take on added significance. Informal businesses often operate in economies characterized by volatile income streams and irregular financial behaviors. In such contexts, the assumptions of a positive relationship between consumption and income may not hold true, as informal businesses may experience fluctuations in income that do not translate proportionately to changes in consumption patterns. Moreover, the reversibility of consumer behavior becomes particularly salient in informal economies, where financial decisions may be driven by immediate needs and circumstances rather than long-term planning (Duesenberry, 1949).

Thus, the limitations of Duesenberry's theory underscore the importance of considering the dynamics of informal businesses in understanding consumer financial behavior. By recognizing the unique challenges and behaviors associated with informal economies, researchers and policymakers can develop more nuanced models and interventions aimed at promoting desirable financial outcomes in such contexts.

Empirical Framework

Numerous studies have explored the relationship between financial literacy and the performance of small businesses, shedding light on the critical role of financial knowledge in entrepreneurial success. In Organisation for Economic Co-operation and Development (OECD) countries, SMEs constitute a significant portion of the business landscape, contributing substantially to employment and regional development (OECD, 2005). However, a substantial proportion of SME owners lack adequate financial literacy, as indicated by Ponzolo's (2020) finding that 79.2% of them are not financially literate. This deficiency in financial knowledge poses challenges for SME growth, as entrepreneurs often struggle to navigate financial systems and access necessary funding (Financial Access, 2010). Wise (2013) emphasizes the value of financial literacy in enhancing SMEs' access to finance, suggesting that improved financial knowledge can increase the likelihood of securing financing.

The effect of financial literacy on SMEs extends beyond access to finance, with research indicating positive correlations with savings and wealth accumulation (Finmark, 2013; Hidayati et al., 2021; Sigiyanto et al., 2019). Cole et al. (2019) note the strong and positive relationship between financial literacy and small businesses, reinforcing the significance of financial knowledge for entrepreneurial success.

In Ghana, Frimpong et al. (2022) conducted a study exploring the correlation between financial literacy, digital finance accessibility, and SME performance. Through their quantitative investigation, they discovered that financial literacy positively influences the accessibility of digital finance, subsequently improving the financial performance of businesses. Similar outcomes were observed in studies by Aktar and Liu (2018), Gathungu and Sabana (2018), and Wiharno (2018), suggesting that financial literacy holds universal importance for SMEs. Likewise, Usama and Yusoff (2019) scrutinized the impact of financial literacy on business performance in Malaysia, revealing a statistically significant positive association. These findings resonate with research conducted in diverse regions, such as those by Herdjiono & Damanik (2016) and Lianto & Elizabeth (2017) in Saudi Arabia, underscoring the wider relevance of financial literacy in fostering SME prosperity. The study conducted by Tumba et al. (2022) explored the relationship between financial literacy and small business performance among female micro-entrepreneurs in Nigeria. Utilizing a quantitative approach and employing structural equation modeling for data analysis, the research revealed significant effects of financial literacy, encompassing financial education, bookkeeping, and cash forecasting, on the small business performance of female entrepreneurs. Particularly, the study emphasized the substantial impact of financial education on the variance in business performance. These findings align with previous research by Aktar and Liu (2018), Umar and Yusoff (2019), Frimpong et al. (2022), Gathungu and Sabana (2018), and Syahrir et al. (2019), which also underscore the critical role of financial literacy in driving business success.

Despite the recognized importance of financial literacy for SMEs globally, numerous studies indicate low levels of financial knowledge, particularly in developing economies like Zimbabwe. Mutengezanwa (2018) conducted a study in Harare and Mashonaland Central provinces of Zimbabwe, examining financial literacy among SMEs. Employing a quantitative approach, the research findings highlighted the pervasive lack of financial knowledge among SMEs, coupled with poor awareness and utilization of available financial products. This study sheds light on the challenges faced by SMEs in Zimbabwe, where inadequate financial training, limited exposure, and a significant market skills gap contribute to the vulnerability of small businesses.

Mabhanda (2015) conducted a study titled "Lack of financial literacy exacerbates SMEs' appalling state in Gweru," which examined the impact of financial literacy on SMEs' business performance in Gweru, Zimbabwe. Through face-to-face interviews and open-ended questionnaires, the research investigated the repercussions of financial illiteracy despite interventions aimed at promoting SME growth. The study revealed that SMEs faced challenges due to a lack of financial education, poor budgeting skills, insufficient access to business information, suboptimal decision-making, and non-business behaviors. These findings align with observations by Mutengezanwa (2018), highlighting the detrimental effects of low financial literacy on SME management.

Similarly, Mashizha et al. (2019) emphasized the significance of financial literacy for SME business performance in Zimbabwe. Employing a mono-quantitative research approach, their study identified financial information asymmetry, attitudes, business cycle fluctuations, and limited access to key financial services and products as primary contributors to financial illiteracy among Zimbabwean SMEs. The research further noted that Zimbabwe scored modestly on the global financial literacy index compared to other frontier economies, indicating the severity of the issue. These findings corroborate the assertions made by Mabhanda (2015) and Mutengezanwa (2018), highlighting the critical role of financial literacy in enhancing SME performance and the challenges posed by its absence.

Finmark's (2013) assessment underscores the persistent challenge of low financial literacy in Zimbabwe. Despite the implementation of services such as mobile and internet banking, which hold significant potential for market usage, their adoption remains suboptimal due to poor financial literacy levels (Finmark, 2013). The study highlights that a staggering 43% of business owners in Zimbabwe do not utilize any financial services in their day-to-day operations, further emphasizing the critical need for improved financial literacy among SMEs in the country. However, considering that nearly a decade has passed since these findings were reported, a follow-up study would be invaluable to track progress on financial literacy among SMEs in Zimbabwe and offer relevant recommendations. Nonetheless, Finmark's (2013) observations align with those of Mabhanda (2015), Mutengezanwa (2018), and Mashizha et al. (2019), collectively highlighting the persistent issue of low financial literacy and its implications for SMEs in Zimbabwe.

RESEARCH METHODS

In this study, the target population comprised entrepreneurs and SME owners conducting business in Harare, the capital city of Zimbabwe, and Bindura, a mining town to the north of Harare. Due to the high informality of small businesses, determining the exact population size was challenging. The researchers opted for a convenient sample size of 130 respondents, a choice supported by Hair et al. (2020), who consider a sample size of at least 100 to be sufficient, especially in cases where the population size is unknown. Both convenience sampling and purposive sampling techniques were employed to select small businesses operating informally in the target areas. Data were collected using questionnaires designed to capture variables used to assess the impact of financial literacy on small business performance. The operational definitions of the research variables are provided below.

1. **Financial Literacy:** The concept of financial literacy aligns with the broader framework of human capital theory, which suggests that investments in knowledge, skills, and abilities lead to improved economic outcomes (Becker, 1964). In the context of businesses, financial literacy enables entrepreneurs to make informed decisions regarding financial management, investment strategies, and risk mitigation, thus enhancing their overall business performance.
2. **Knowledge:** Financial knowledge is supported by cognitive theory, which posits that individuals' understanding and application of financial concepts are influenced by their cognitive abilities, learning experiences, and exposure to financial information (Mandell & Klein, 2009). This theory emphasizes the importance of education and training in improving financial knowledge and decision-making.
3. **Financial Attitude**: The theory of planned behavior suggests that attitudes toward a behavior influence individuals' intentions and subsequent actions (Ajzen, 1991). In the context of finance, positive attitudes toward financial activities, such as saving and investment, are likely to lead to proactive financial behaviors and, ultimately, better financial outcomes for businesses.
4. **Financial Behavior:** Behavioral finance theory suggests that individuals' financial decisions are influenced by psychological factors, cognitive biases, and emotional responses to financial stimuli (Barberis & Thaler, 2003). This theory highlights the importance of understanding how SMEs' financial behaviors, such as risk-taking tendencies and investment patterns, impact their overall financial performance.
5. **Business Performance:** The resource-based view (RBV) of the firm posits that a firm's performance is influenced by its internal resources and capabilities, including financial resources (Barney, 1991). According to this theory, businesses that effectively

leverage their financial resources and capabilities are more likely to achieve sustainable competitive advantages and superior performance outcomes.

This study focuses on two variables: financial literacy, serving as the independent variable, and SME performance, serving as the dependent variable. Financial literacy is assessed through three dimensions: financial attitude, financial behavior, and financial knowledge. SME operational performance is measured using indicators such as sales growth, expansion, and profitability. The study predicts that financial literacy directly influences SME performance. To validate this relationship, multiple linear regression analysis was employed, as it is well-suited for estimating model parameters involving hypothesized relationships among multiple continuous variables (Pallant, 2010).
The equation delineating the association between these factors is presented as follows:

$$PSMEs = f(FL)$$

PSMEs : Small and medium scale enterprises performance (dependent variable)
FL : Financial literacy (independent variable)

The explicit form of the model can be stated thus;

$$PSMEs = \beta_0 + \beta_1 FK + \beta_2 FB + \beta_3 FA + \varepsilon$$

PSMEs : Financial performance
FK : Financial knowledge
FB : Financial behavior
FA : Financial attitude
βo : constant of the model.
$\beta 1$-$\beta 3$: coefficients of the variables included in the model.
ε : disturbance terms or error terms.

RESEARCH METHODS

The sample for this study was 120 respondents; initially, the researcher approached 130 respondents but, due to non-response, the study received 120 valid responses resulting in a response rate of 92%. The response rate distribution is illustrated in Table 1 below.

Table 1. Study Respondents

Particulars	Frequency	Percentage
Distributed	130	100%
Returned	120	92%
Non-response	10	8%

Source: Field data (2023)

As per Cooper and Schindler (2003), a response rate exceeding 75% is deemed satisfactory, and the collected responses adequately elucidate the study's parameters. Hence, this research garnered a satisfactory number of responses to allow for generalizing the findings.

Table 2. Gender of the respondents

Variable	Frequency	Percentage
Male	69	58%
Female	51	42%
Total	**120**	**100%**

Source: Field data (2023)

Table 2 indicates that 58% of the respondents were male and 42% were female. This confirms the gender composition of this study was skewed toward male participants.

Table 3. Respondents' age distribution

Variable	Frequency	Percentage
18-25 years	14	12%
26-35 years	21	18%
36-45years	45	38%
46-55 years	28	22%
55-65 years	12	10%
66+	0	0%
Total	**120**	**100%**

Source: Field data (2023)

The results presented in Table 3 indicate the distribution of respondents across different age groups. The highest proportion of respondents, comprising 38% of the total, fell within the age bracket of 36-45 years. Following this, 22% of respondents belonged to the 46-55 age group, while 18% were aged between 26-35 years. Additionally, 12% of respondents were in the 18-25 age group, and 10% were between 55-65 years old. Notably, no respondents were above the age of 66. These findings suggest that the majority of respondents were relatively young, spanning from youth to middle age.

Table 4. Respondent's education

Education level	Frequency	Percentage
Primary	0	0%
Secondary	29	24.16%
Certificate/ Diploma	49	40.83%
Bachelor degree	30	25%
Master degree	12	10%
Total	**120**	**100%**

Source: Field data (2023)

The study examined the educational background of the respondents, revealing that the majority possessed certificates and diplomas, comprising 49 individuals (40.83%), which accounted for 33% of all respondents. Following this, 27% of respondents held bachelor's degrees, while the lowest frequency was observed among SME owners with master’s degrees, constituting 12 individuals (10%). Respondents with secondary level education represented 24.16% of the total respondents, with no participants having primary level education only. These findings suggest that a significant proportion of the respondents, particularly those with college-level qualifications, possessed adequate knowledge and education to comprehend financial literacy and its implications for performance.

Table 5 provides insights into the duration for which respondents had been engaged in their respective business enterprises. The data indicate that, out of the total participants, 120 individuals were identified as SMEs, with none categorized as government officials or community members.

Table 5. Industry represented by SME

Sector	Frequency	Percentage
SME/Business	120	100%
Government official	0	0%
Community Member	0	0%
Total	**120**	**100 %**

Source: Field data (2023)

The study also investigated the duration of operation for the SMEs involved. The highest frequency was observed among SMEs that had been in operation for 6-10 years, accounting for 71 SMEs (59%). SMEs with a business tenure of 0-5 years constituted 28 entities, representing a frequency of 23%. Conversely, the lowest frequency was recorded for SMEs operating for 16-20 years, with only two entities falling within this category.

Table 6. Length of service

Business type	Frequency	Percentage
0-5 years	28	23%
6-10 years	71	59%
11-15 years	19	16%
16-20 years	2	2%
Total	**120**	**100%**

Source: Field data (2023)

The study sought to determine the levels of financial literacy among SMEs in the areas of study. Table 7 shows the descriptive statistics for this test, indicating the mean scores, and standard deviation as well as the number of scale items on which these statistical inferences were made.

Table 7. Literacy levels among SMEs

Variable	Mean	Standard deviation
Most SMEs and businesses are aware of financial products in the market	4.18	1.064
SMEs obtain loan and overdraft facilities from local banks	4.02	1.525
SMEs work on controlled financial budgets	4.20	1.157
SMEs often consider investment portfolios from local financial service providers	4.17	1.177
SMEs are making prudent, informed, and educated financial decisions	4.25	0.982

Source: Field data (2023)

The analysis revealed that SMEs in Harare and Bindura generally agreed with the items used to measure the level of financial literacy, as evidenced by a mean score of 4.16 across the five measured variables/items. Individual mean scores ranged between 4.02 and 4.25, indicating that respondents fell within the "agree" to "strongly agree" categories. The standard deviations further confirmed that SMEs shared similar perceptions regarding the levels of financial literacy, with values ranging from 0.982 to 1.525. Moreover, the findings indicated that SMEs perceived making prudent, informed, and educated financial decisions as significantly enhancing business performance, with a mean score of 4.25 and a standard deviation of 0.982. Conversely, the results suggested that SMEs' utilization of loan and overdraft facilities from local banks received a more modest mean score (mean = 4.02; standard deviation = 1.525).

The regression analysis aimed to determine the correlation between the dependent variable, SME performance, and the independent variables: financial attitude, financial behavior, and financial knowledge. The model summary, as shown in Table 8, illustrates that the R-squared value of the model is 0.653, indicating that 65.3% of the variance in SME performance can be elucidated by financial attitude, financial behavior, and financial knowledge. This indicates a moderately robust relationship between the independent variables and SME performance. Table 8 furnishes a comprehensive overview of the model's effectiveness in elucidating the variance in SME performance, considering the incorporated independent variables.

Table 8. Model summary of SMEs' performance, financial knowledge, behavior, and financial attitude

Model	R	R square	Adjusted r square	Std. error of the estimate	Change Statistics				
					R square change	F change	df1	df2	Sig. F change
1	0.591[a]	0.653	0.647	0.71637	0.153	2.711	3[a]	45	.0046

a. Predictors: (Constant), financial attitude, financial behavior, financial knowledge
b. Dependent variable: SMEs' performance

To evaluate the statistical significance of the model, an analysis of variance (ANOVA) procedure was employed, comparing SMEs' performance with financial attitude, financial behavior, and financial knowledge at a 95% confidence level. The ANOVA test yielded a p-value of 0.046 and an $F(3, 45)$ critical value of 22.711. With a p-value of 0.046, below the significance threshold of 0.05; therefore, the model is deemed statistically significant. Furthermore, the critical F-value of 22.711 surpasses the computed F-value, further affirming the model's statistical significance. Detailed results from the ANOVA test are presented in Table 9, providing a comprehensive overview of the model's significance in elucidating the relationship between SME performance and the independent variables of financial attitude, financial behavior, and financial knowledge.

Table 9. Analysis of variance (ANOVA)

Model		Sum of squares	df	Mean square	F	Sig.
1	Regression	23.093	3	1.391	22.711	0.046b
	Residual	4.174	45	0.513		
	Total	27.267	48			

a. Dependent variable: SMEs' performance

b. Predictors: (Constant), financial attitude, financial behavior, financial knowledge

The ANOVA test was only able to examine the model's statistical significance; however, the research intended to examine the relationships between financial attitude, financial behavior financial knowledge, and SMEs operational performance, thus the coefficients summary was referred to. Table 10 below shows the coefficients between the independent variables and the dependent variable as explained above.

Table 10. Coefficients summary

Model		Unstandardized coefficients		Standardized coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.139	0.853		3.678	.001
	Financial attitude	0.549	0.051	0.612	10.764	.000
	Financial behavior	0.416	0.065	0.541	6.401	.001
	Financial knowledge	0.346	0.053	0.163	6.528	.001

Table 10 above showcases the regression equation, revealing that, under constant conditions, with all other factors held steady except for the variables (financial attitude, financial behavior, financial knowledge), there will be a variance of 3.139 in SME performance. Furthermore, the findings illustrate that a one-unit increase in financial attitude corresponds to a 0.549-unit enhancement in SME performance ($\beta = 0.549$, $t = 10.764$, $p = 0.000$). Similarly, a rise of one unit in financial behavior yields a performance improvement of 0.416 units for SMEs (β = 0.416, t = 6.401, p = 0.001). Moreover, an augmentation of one unit in financial knowledge leads to a performance boost of 0.346 units for SMEs (β = 0.346, t = 6.528, p = 0.001). These associations were all found to be statistically significant at the $p < 0.005$ threshold, indicating a robust link between financial literacy dimensions and SME performance. Consequently, the regression equation can be expressed as follows:

$$SME\ Performance = 3.139 + 0.549 \times Financial\ Attitude + 0.416 \times Financial\ Behavior + 0.346 \times Financial\ Knowledge$$

The outcomes of the multiple regression analysis unveiled a favorable and noteworthy correlation between financial attitude and the performance of SMEs. This discovery corresponds with earlier research conducted by Herdjiono and Damanik (2016), Sigiyanto et al. (2019), and Hidayati et al. (2021), which similarly observed a beneficial impact of financial attitude on business performance. Likewise, the association between financial behavior and SMEs performance was determined to be constructive and statistically significant. This outcome mirrors the findings of Lianto and Elizabeth (2017), and Wiharno (2018), indicating that judicious financial conduct positively affects the operational outcomes of SMEs. Furthermore, the study affirmed the constructive influence of financial knowledge on SMEs performance, aligning with prior investigations by Aktar and Liu (2018), Syahrir et al. (2019), and Hidayati et al. (2021).

The results also suggest that SMEs demonstrate notably elevated levels of financial literacy, as demonstrated by their comprehension of financial functions, products, services, and business management practices. This marks a departure from earlier research endeavors, such as those undertaken by Finmark (2013), Mabhanda (2015), Mutengezanwa (2018), and Mashizha et al. (2019), which documented low levels of financial literacy in Zimbabwe. The present study implies an enhancement in the financial literacy of SMEs and their utilization of financial tools, applications, products, and services to augment their operational effectiveness. This transition signifies a positive trajectory toward heightened financial awareness and proficiency among SMEs in Zimbabwe, potentially contributing to their overall prosperity and resilience in the long term.

CONCLUSION

In the context of informality, SMEs play a crucial role in the Zimbabwean economy, often serving as vital sources of employment and economic activity. However, despite their widespread presence, the literature suggests that many SMEs struggle due to a lack of appreciation for financial literacy within their operations. This study sought to address this issue by examining the levels of financial literacy among 120 SMEs in Harare and Bindura, particularly considering the challenges posed by informality. Employing a quantitative approach within an explanatory research design, data collection was facilitated through structured questionnaires. Given the informal nature of many SMEs, both purposive and convenience sampling methods were utilized to select participants, reflecting the diverse landscape of small businesses. Subsequently, data analysis conducted using SPSS software revealed a significant impact of financial literacy on SME operational performance. Notably, the study observed an improvement in financial literacy within SME operations, manifested through heightened awareness and application of financial management skills. The research ultimately concluded that SMEs in Zimbabwe, despite operating within an informal context, demonstrate a degree of financial literacy and effectively utilize financial skills and knowledge to run their businesses. Importantly, the study emphasized the positive and significant impact of financial literacy on SME operational performance, highlighting the importance of advancing knowledge, skills, behaviors, and attitudes toward financial literacy. Given the challenges faced by SMEs in accessing funding and resources to develop financial knowledge, recommendations were made for government support to enhance financial literacy initiatives. Additionally, financial service providers were encouraged to play a role in supporting SME growth by improving awareness of financial products and services tailored to the needs of informal businesses. Through such efforts, SMEs operating in the informal sector can optimize their operational performance and contribute more effectively to the Zimbabwean economy.

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