

## A CRITICAL ANALYSIS OF THE IMPACT OF FINANCIAL LITERACY AND MANAGEMENT ON YOUNG ENTREPRENEURS

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### Abstract:

*This study examines the impact of financial literacy on the success, growth, and profitability of young entrepreneurs. It explores key financial concepts like budgeting, investment management, and risk assessment, assessing their role in financial decision-making. The research analyzes financial management strategies, identifies common challenges, and evaluates how financial literacy helps overcome them. Through data analysis, it provides insights that contribute to financial education programs, policy recommendations, and improved financial practices. Ultimately, the study aims to foster a financially literate entrepreneurial ecosystem that drives innovation, resilience, and economic growth.*

**Keywords:** Financial Literacy, Financial Management, Entrepreneurship, Business Growth, Risk Assessment, Investment Management, Business Sustainability

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### Introduction:

Financial literacy and management are crucial for the success and sustainability of young entrepreneurs, who often face financial uncertainties in a dynamic market. Effective financial management, including budgeting, investment decisions, and risk assessment, plays a key role in long-term business growth. However, many young business owners struggle due to a lack of financial knowledge. This study explores the impact of financial literacy on entrepreneurial success and aims to bridge knowledge gaps by assessing its role in overcoming financial challenges. The findings will contribute to developing financial education programs that enhance decision-making and foster a resilient entrepreneurial ecosystem.

### Objective of study:

1. To assess the level of financial literacy among young entrepreneurs, focusing on budgeting, investment management, and risk assessment.
2. To examine financial management strategies employed by young entrepreneurs and their impact

on business sustainability.

3. To evaluate the relationship between financial literacy and business performance, growth, and profitability.
4. To identify common financial challenges faced by young entrepreneurs and the role of financial literacy in overcoming these challenges.

### Hypothesis for the Study:

(H<sub>0</sub>): There is no significant relationship between financial literacy and the business performance, growth, and profitability of young entrepreneurs.

(H<sub>1</sub>): Financial literacy has a significant positive impact on the business performance, growth, and profitability of young entrepreneurs.

### Significance of the Study:

This study is important because:

1. **Helping Entrepreneurs Make Better Decisions –** Understanding financial literacy helps young business owners make smart financial choices, leading to growth and stability.

2. **Supporting Business Success** – Good financial knowledge helps manage cash flow, investments, and risks, making businesses stronger in competitive markets.
3. **Finding Financial Problems and Solutions** – The study identifies financial challenges and suggests ways to prevent business failure.
4. **Improving Financial Education and Policies** – Governments, banks, and schools can use the findings to create better financial training programs for young entrepreneurs.

#### Limitations of the Study:

The study is limited to only 100 respondents.

- The sample may not fully represent all young entrepreneurs.
- External economic factors (e.g., inflation, market trends) may also influence financial management, which is beyond the study's scope.

#### Review of Literature:

1. **Potrich et al. (2015)** conducted a study to develop and determine the level of financial literacy using financial knowledge, financial attitude, and financial behaviour variables in Brazil. The results showed that women's financial knowledge, financial attitudes, and financial behaviour were still low, while men's levels were still positive financial knowledge and saving.
2. **Thapa & Nepal (2015)** found that the financial literacy rates of students in Nepal were still low, such as capital markets, taxes, financial, credit, and insurance policies. This is influenced by the income of parents, but students still have a positive attitude towards saving.
3. **Herdjiono & Damanik (2016)** found that financial attitudes influence financial management behavior, financial knowledge does not affect financial management behavior, and financial knowledge and income of parents do not affect financial management behavior.

#### Research Methodology:

##### 1. Research Design:

The study collects **primary data** through a **structured questionnaire** administered via **Google Forms**. The study also utilizes **secondary data** from academic journals, reports on financial literacy and entrepreneurship.

##### 2. Population and Sample Size:

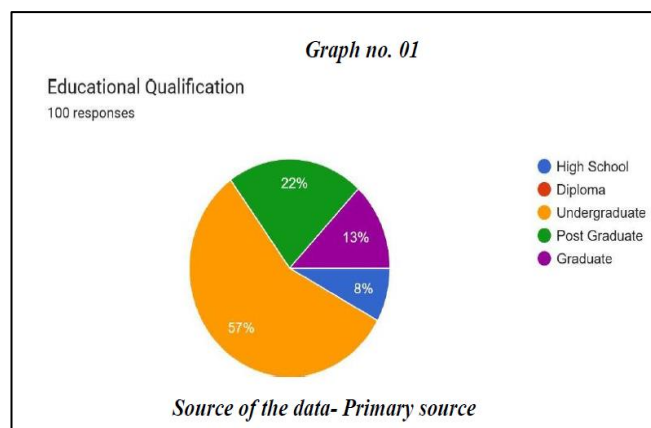
The population of this study consists of **young entrepreneurs**, defined as individuals who are above the age of **18** who own or manage a business. The sample is selected using a **random sampling technique**, ensuring a diverse representation across industries such as retail, technology, manufacturing, and services. A sample size of **100 respondents** will be considered to enhance the study's validity and reliability. To test the hypothesis **Chi-square test** has been used & Graph or chart has been used to represent the data collected through primary sources.

#### The Impact of Financial Literacy and Management on Young Entrepreneurs:

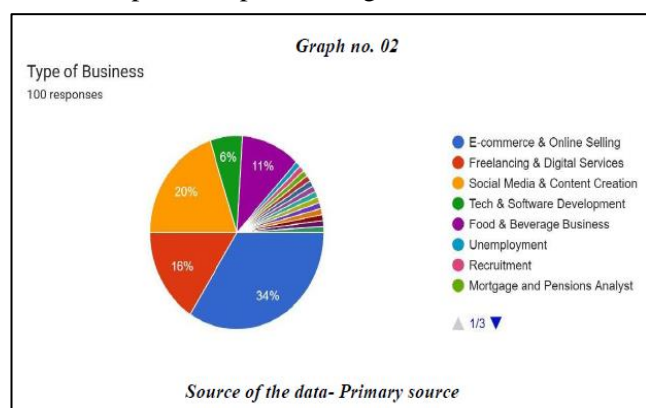
This data analysis explores the financial literacy levels, management practices, and challenges faced by young entrepreneurs. Key insights include demographic trends, business types, financial education gaps, budgeting habits, financial management tools, and funding sources.

In this research 74% of respondents are between **18-25 years old**, indicating that most young entrepreneurs in the study are in this age group. 19% of respondents are in the **26-30 years** category. Only a small percentage fall into the **31-35** and **36 & above** category.

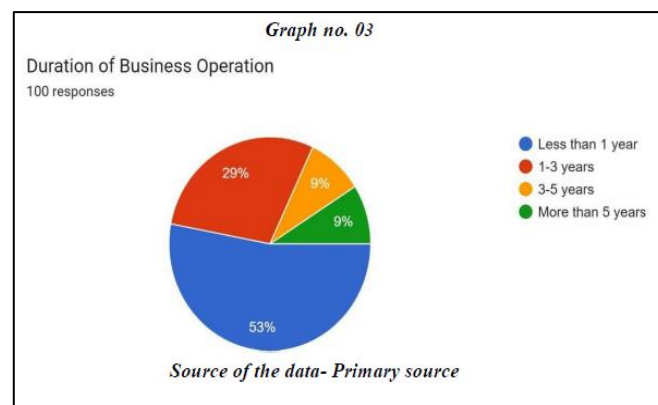
54% of respondents are **female**, indicating a higher participation of women in entrepreneurship. 46% of respondents are **male**, showing that both genders are well represented in the study.



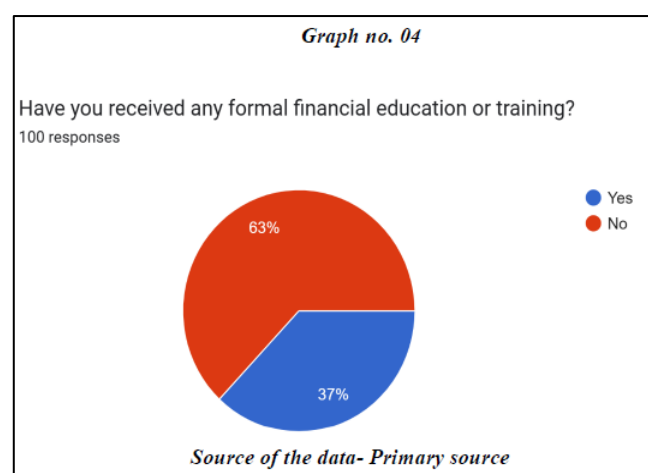
Graph no. 01 shows that 57% of respondents have an **undergraduate qualification**, making it the most common education level among young entrepreneurs. 22% hold **postgraduate qualifications**, while 13% have **graduate degrees**, indicating a fair number of higher-educated entrepreneurs. Only 8% of respondents completed **high school**, and **diploma holders are not represented in the chart**, suggesting most entrepreneurs pursued higher education.



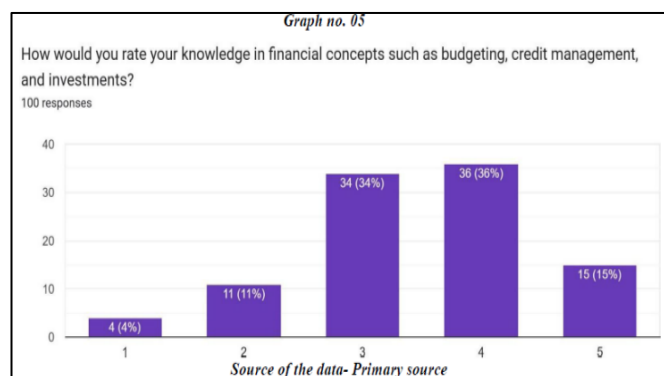
Graph no. 02 represents that **Digital entrepreneurship** is the most common business type (34%), reflecting a strong preference for online ventures. **Freelancing & Digital Services (16%)** and **Social Media & Content Creation (20%)** highlight the rise of independent online work. Some sectors, like Recruitment and Mortgage & Pensions Analysis, have minimal representation, while other fields remain moderately popular among young entrepreneurs.



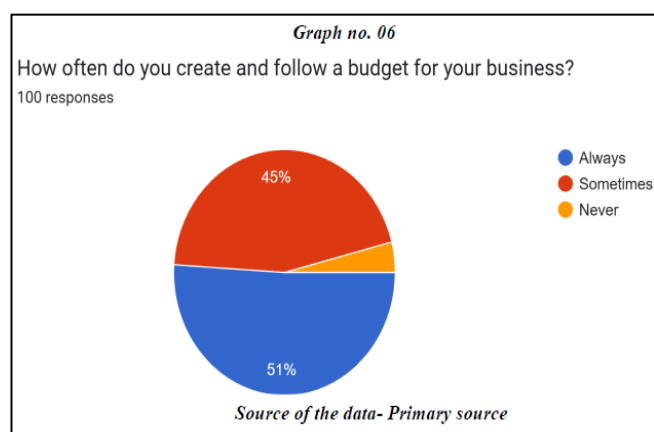
This chart **53% of respondents** have been in business for **less than 1 year**, indicating a large number of startups and early-stage entrepreneurs. **29% of businesses** have been operating for **1-3 years**, showing a reasonable level of business sustainability. Only **9% have been running for 3-5 years**, and another **9% for more than 5 years**, suggesting that fewer young entrepreneurs have long-term experience.



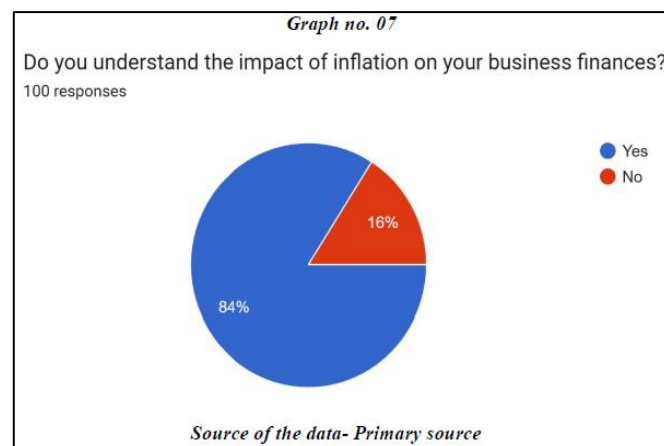
The above chart shows **63% of respondents** have **not** received any formal financial education or training, suggesting a gap in financial literacy among young entrepreneurs. Only **37%** have undergone formal financial education, which may impact their ability to manage finances effectively in business.



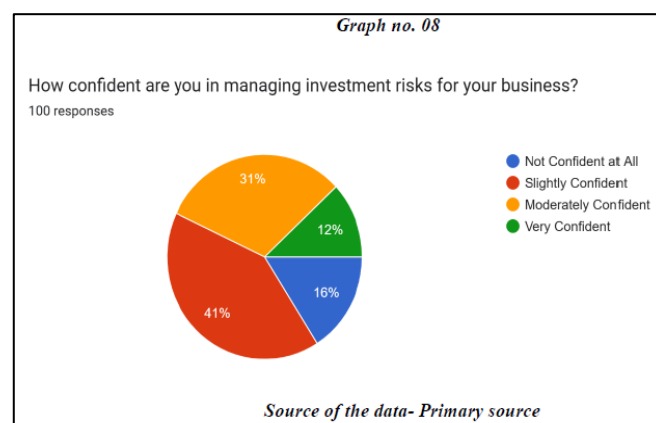
Graph no. 05 the majority of respondents rated their financial knowledge at a **3 (34%) or 4 (36%)**, indicating a moderate understanding of budgeting, credit management, and investments. Only **15%** of respondents rated themselves at the highest level (5), suggesting that few young entrepreneurs feel highly confident in their financial skills. A combined **15% (4% at level 1 and 11% at level 2)** have **poor financial knowledge**, which could hinder effective business financial management.



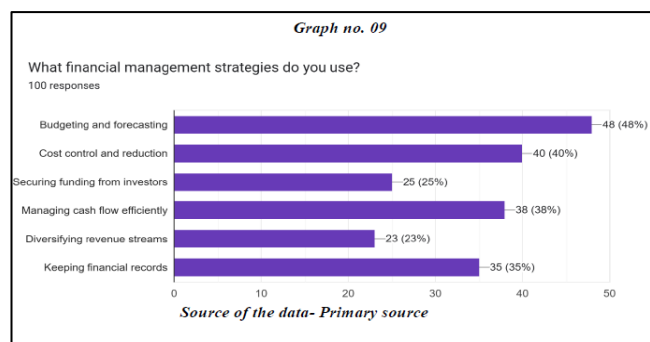
The chart shows that **51%** of young entrepreneurs always follow a budget, indicating strong financial discipline. However, **45%** do so only sometimes, suggesting inconsistency in financial planning. A very small percentage never budget, highlighting potential financial management gaps.



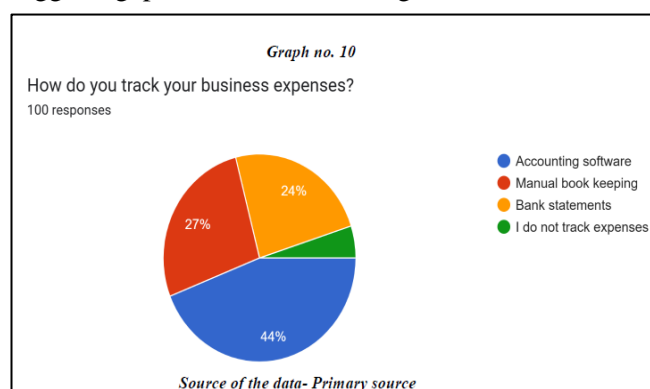
The chart shows **84%** of respondents **understand** how inflation affects their business finances. This indicates a strong awareness of economic factors influencing profitability and costs. **16%** of respondents **do not understand** inflation's impact, which suggests a need for educational resources on financial management and economic trends.



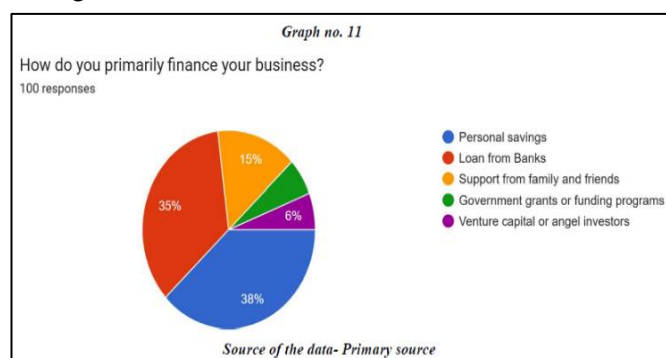
The above chart shows only **12%** of respondents feel very confident in managing investment risks, while **16%** lack confidence entirely. The majority fall between slight (**41%**) and moderate (**31%**) confidence, indicating awareness but a need for further financial risk management skills.



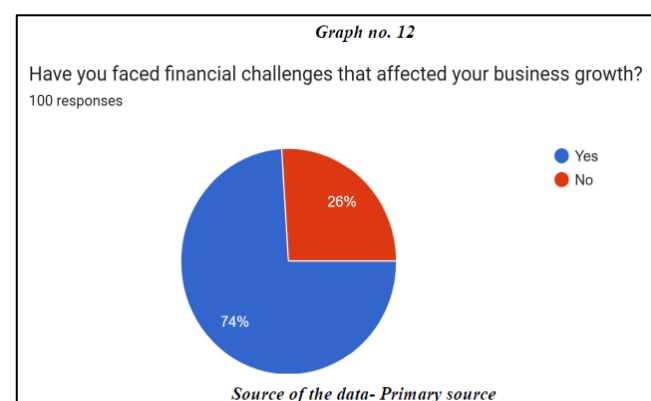
The above chart shows **Budgeting (48%)** is the most used strategy, followed by **cost control (40%)** and **cash flow management (38%)**. Few seek **investor funding (25%)**, and **revenue diversification (23%)** is least adopted. **Low financial record-keeping (35%)** suggests gaps in financial tracking .



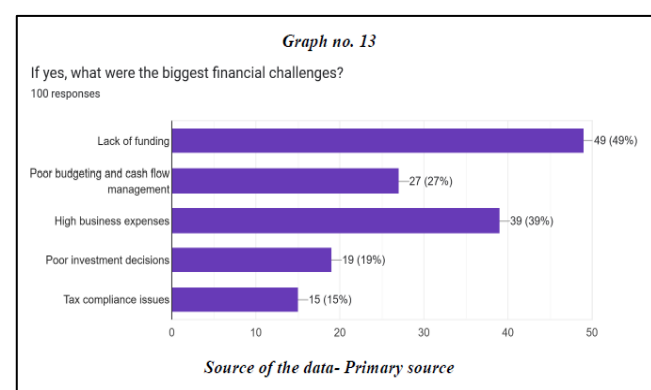
The chart shows that **44%** of young entrepreneurs use **accounting software** to track business expenses, making it the most preferred method. **Manual bookkeeping (27%)** and **bank statements (24%)** are also commonly used. However, a small percentage do not track expenses at all, indicating potential financial management risks.



Graph no. 11 shows that **Personal savings (38%)** is the most common funding source, followed by **bank loans (35%)**. Support from **family and friends (15%)** is less common, while government grants and venture capital remain minimally utilized, indicating limited access or awareness.

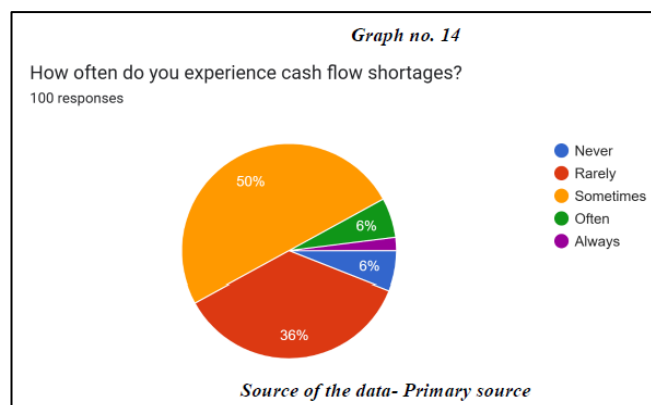


The above chart shows that **74% of businesses** have faced financial difficulties impacting their growth. Only **26%** have not encountered significant financial obstacles.

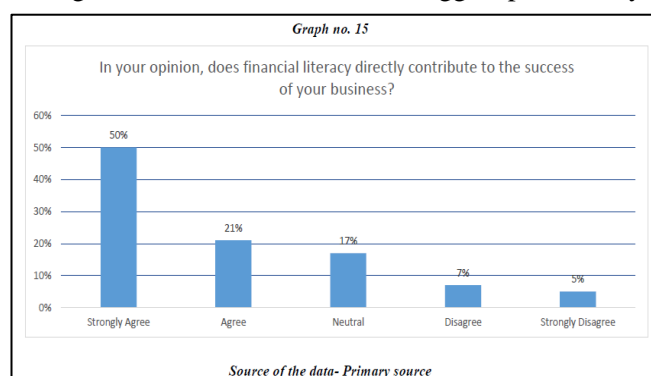


The above chart shows that nearly half of the respondents (**49%**) reported lack of funding as a primary challenge. **39%** of businesses face difficulties due to high operational costs. **27%** of respondents struggle with managing their finances effectively. **19%** of businesses made poor investment choices affecting growth. **15%** reported challenges related to tax compliance.

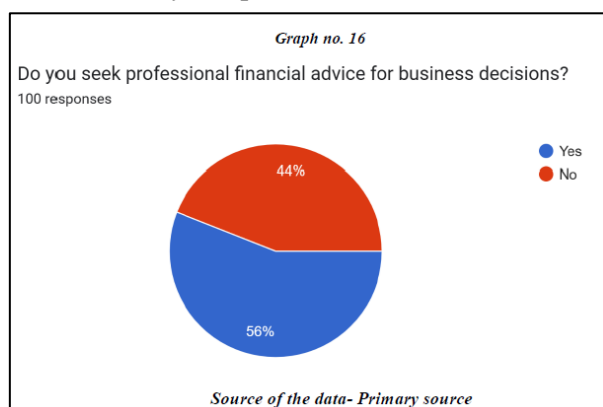




The chart shows that cash flow shortages are common, with **50%** experiencing them **sometimes** and **36%** **rarely**. **6%** face them **often**, **6%** **never**, and **2%** **always**, indicating that while most entrepreneurs manage occasional issues, a few struggles persistently.



The chart shows that **71% of respondents (Strongly Agree + Agree)** believe financial literacy is crucial for business success, while **12% disagree** and **17% are neutral**. This indicates a strong positive perception of financial literacy's impact on business success.



The chart shows that **56%** of respondents **seek**

**professional financial advice** for business decisions, while **44% do not**, indicating that a slight majority value expert guidance in financial matters.

### Hypothesis Testing:

The Chi-Square test was employed in this research to examine the hypothesis, assessing whether there is a significant relationship between financial literacy and the business performance, growth, and profitability of young entrepreneurs.

Chi-Square Tests			
	Value	df	Asymptotic Sig. (2-tailed)
Pearson Chi-Square	58.73	4	.000

1. The **p-value (0.000)** is less than the conventional **significance level (0.05 or 0.01)**, indicating strong statistical significance.
2. Since  **$p < 0.05$** , we **reject the null hypothesis ( $H_0$ )**.
3. This suggests that there **is a significant relationship** between financial literacy and business performance, growth, and profitability among young entrepreneurs.

### Conclusion:

The test results support the claim that **financial literacy positively impacts** the business performance, growth, and profitability of young entrepreneurs. This implies that young entrepreneurs with better financial literacy are more likely to achieve better business outcomes.

### Key Findings:

- **Financial Literacy Needs:** High demand for budgeting, cash flow, debt, and investment education. Preferred formats include online courses and workshops.
- **Demographics:** 74% are aged 18-25, with 54% female participation. 57% hold undergraduate degrees.
- **Business Landscape:** 53% have been in business

for less than a year, and 34% focus on digital entrepreneurship.

- **Financial Literacy & Education:** 63% lack formal financial education, and only 12% feel confident in managing investment risks.
- **Financial Management:** 51% follow a budget, but only 35% maintain proper financial records. 44% use accounting software.
- **Funding & Challenges:** Personal savings (38%) and bank loans (35%) are the main funding sources. 74% face financial difficulties, mainly due to lack of funds (49%) and high costs (39%).
- **Business Success:** 49% believe financial literacy impacts success. 56% seek professional financial.

### Conclusion:

The research findings highlight that financial literacy plays a crucial role in the business performance, growth, and profitability of young entrepreneurs. The statistical analysis using the Chi-Square test confirms a significant relationship between financial literacy and business success, leading to the rejection of the null hypothesis ( $H_0$ ). Entrepreneurs with higher financial literacy exhibit better financial management practices, including budgeting, investment risk assessment, and financial planning, which contribute to their business stability and growth. However, a significant gap in financial education remains, as 63% of respondents lack formal financial training. Many entrepreneurs rely on personal savings and bank loans, with limited access to investor funding or structured financial management tools. The study underscores the need for targeted financial education programs to equip young entrepreneurs with essential financial skills, ensuring long-term business sustainability and resilience.

### Recommendations & Suggestions:

1. **Improve Financial Literacy** – Offer workshops, online courses, and mentorship on budgeting, cash flow, and investment management.
2. **Encourage Financial Tools** – Promote accounting software, expense tracking, and proper financial record-keeping.
3. **Expand Funding Options** – Increase awareness of venture capital, government grants, and microfinance opportunities.
4. **Address Financial Challenges** – Provide cost-control strategies, tax compliance training, and investment decision-making support.
5. **Promote Financial Discipline** – Encourage consistent budgeting, forecasting, and business mentorship programs.
6. **Enhance Business Growth** – Support early-stage entrepreneurs and promote revenue diversification for long-term stability.
7. **Encourage Professional Advice** – Increase access to financial consultants and advisory services for better decision-making.

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