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## **THE IMPACT OF FINANCIAL LITERACY ON BUSINESS PERFORMANCE IN SMALL AND MEDIUM ENTERPRISES: EVIDENCE FROM KEGALLE DISTRICT IN SRI LANKA**

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### **Abstract**

This study has been conducted to achieve the objectives of examining the level of financial literacy based on demographic factors and identifying the relationship between the Financial Literacy and Business Performance of Small and Medium Enterprises (SMEs) in the Kegalle district of Sri Lanka. Thus, a quantitative study has been conducted based on Prospect Theory, and Exchange theory. There is a dearth of studies related to the Financial Literacy and Business Performance of SMEs in Sri Lanka. This study is carried out as a solution to the empirical gap. The sample size was 100 SMEs in the Kegalle district, and the representative purposive sampling method was used to collect the required data. This study has been used primary data through questionnaires after conducting factor analysis, reliability and validity test. The objectives have been achieved through descriptive analysis, correlation, and regression analysis since the past empirical review suggested using this analysis to examine the relationship. The findings of the study revealed that there is a positive relationship between financial literacy and business performance. Accordingly, independent variables such as technical financial knowledge, financial market knowledge & financial management skills have a positive impact on the business performance of SMEs and among these variables, technical financial knowledge and financial management skills are the most influential factors which affect the business performance. As the explanation of prospect theory, this study also concluded that there should have good financial knowledge among owners to make decisions. This study also concluded that owners or employees should have higher education level. As the explanation of exchange theory, it should exchange information or knowledge among employees and recruit more skilled employees. The research provides insight into the business owners of SMEs & policymakers that how they can make better decisions to improve business performance through financial literacy. Accordingly, the business owners and policymakers should arrange training programs to improve the knowledge of financial literacy.

**Keywords:** Financial Literacy, SME's, Business Performance