

TEACHING FINANCIAL LITERACY TO ENTREPRENEURS FOR SUSTAINABLE DEVELOPMENT

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Abstract: Current world economy crises could be prevented by increasing public financial literacy. Moreover, entrepreneurs are considered economic engines of each society and the success rate of entrepreneurs could be improved by increasing financial literacy of entrepreneurs. In addition, since entrepreneurial success can significantly lead to sustainable development of each society, entrepreneurial strength is one of the common roles of policy makers. This study briefly reviews the importance of financial literacy and tries to consider some important points of its teaching contents and process. At the end, some suggestions have been presented for further research.

Keywords: Entrepreneurship, Entrepreneurial Success, Entrepreneurial Learning, Financial Literacy, Sustainable Development

INTRODUCTION

Today's global economy crises affect social and individual lives in many aspects. Studies show that lack of preparedness and low financial literacy level among people around the world leads to current worldwide economic crisis, especially in the USA. Obviously, if the people were more aware of the financial choices, the current American crisis could have been avoided (Mbugua, 2009, p.1). That crisis in the US for example, caused an increase of unemployment rate to 9.6% in 2009, which was just 3.8% in 2000 (Bureau of Labor Statistics, 2010).

Studies have shown that the level of financial skills and knowledge among the majority of people especially among young people, is low even in

advanced societies (Jacob et al., 2000, p. 15). Thus, while money is one of the important issues of the human mind, most people are unwilling to talk about it not because of the lack of interest but due to their poor knowledge in this field (Fox et al., 2005).

According to the focus of some researches, most of the people with financial problems has necessarily poverty in financial literacy. In fact, it seems that poor people do not have financial knowledge and skills needed for having a safe life in today's world. For example a study showed that more than 40 millions of Americans do not analyze or even keep record of their living expenses. Unfortunately, this is a point that often poor people, themselves do not believe that (Princeton Survey Research Associates International, 2008).

One of the important points in the financial literacy is having low level in financial skills and knowledge which causes making wrong decisions that harm both individuals and societies. This problem among those families with lower income levels could be deeper and more serious due to their less human and social capitals (Jacob et al., 2000, p.8). Thus, increasing financial educations not only improve the financial level of participants, but also improve their economics status (Sprow, 2010).

From a different outlook, it can be seen that how much entrepreneurs affect sustainable developments (Ahmed and McQuaid, 2005). There are hundreds of different definitions and points about sustainable development in related literature (Ahmed and Stein, 2004; Dale, 2001). However, in simple words, sustainable development is keeping stability over

time. Also World Bank's definition for sustainable development concept consists of 5 elements: development of financial, physical, human, social and natural capitals in order to meet current needs in the future (World Bank, 2003).

Additionally today's importance of sustainable development although cause fear and tension for future, creates opportunities for innovation to provide sustainable products, services or processes (see Tidd et al., 2005 for more discussion). Entrepreneurs in this structure are the innovator agents that are implementing sustainable development (Gerlach, 2003; Hall et al., 2010). Unfortunately there are few studies about entrepreneur's financial literacy and teaching it to them (vanRooij et al., 2011). Thus, according to the important role of entrepreneurs in creating a progressive successful economy and also the necessary of the financial skills in personal life's success, the financial literacy and learning of entrepreneurs are focused in this study.

FINANCIAL LITERACY

In a comprehensive definition, the purpose of financial literacy is the ability to read, analyze, manage and discuss various financial conditions that eventually leads to individuals' economic well-being. This knowledge includes the understanding of different financial choices and getting the right financial decisions for better future planning (Stone, 2004; Vitt et al., 2000).

Teaching financial literacy is a complex issue in which several factors are contributing. Generally there are 2 approaches to this issue. The first one focuses on needed knowledge in this context and the other one highlights the appropriate training functions and methods. In the former, researchers focused on minimum needed knowledge for making correct financial decisions (Mandell and Klein, 2007, p. 106). In the latter, researchers focus on the skills and abilities which participants should learn (Mandell, 2006).

Financial trainings help poor people to understand the importance of financial skills and accept responsibilities for their economic situations. Some researches have shown that the financial educations should be considered long term and repetitive processes. Also the resources and training methods should be suitable and apprehensible for people with lower financial literacy who have low and middle income.

Currently, several public and private institutes provide courses for teaching financial issues in developed countries. In some studies, short-term improvements in participants' financial behavior have been reported (Lyons et al., 2006). The main purpose of such those training courses is modifying financial behavior and decision making of

participants. This point can be traced in increasing the personal saving and financial satisfaction but these long-term expected results are criticized by some scholars (Mandell and Klein, 2009).

Because of public importance of financial literacy, some plans are followed in developed countries. For instance in 2003, the Financial Literacy and Education Commission was established with an objective of improving the financial literacy of all persons in the U.S. The commission held the 2008 National Research Symposium in Financial Literacy and Education in Washington, during which attendants attempted to determine the current situation of financial literacy education in the USA (Spro, 2010).

At present various institutes and colleges provide programs which want to improve financial literacy in developed countries, such as Financial Literacy Centre based at the University of Warwick and the Money Management Council in the UK and the National Endowment for Financial Education, and the Financial Literacy Center in the USA (Brown et al., 2006).

ENTREPRENEURS; ENGINE FOR ECONOMY GROWTH

Entrepreneurship is a pivotal factor for innovation, production, competition, job creation and as a result it is an engine for economy development (Gjovig 2005, Van der Kuip and Verheul, 2003). Nationally, small businesses are representing the major workforce. For example more than 99 percent of U.S. companies are categorized in this group, and they are representing for half of the total active labors. They also hired two-thirds of all new labors in the United State of America (Small Business Administration, 2001). In addition, entrepreneurs and small and medium enterprises are the primary driving forces of Hong Kong development even though its economy faced many challenges like economic globalization and new economy order (SME committee, 2001). However, unfortunately, most of the small and medium companies go bankrupt or get closed in their early years of foundation. According to the American Small and Medium Enterprise Administration, more than one-third of SMEs companies would be closed during their first two years activities and also half of them are closed during their first four years (Small Business Administration, 2002). The rate bankruptcy is higher in companies with lower number of employees (Monk, 2000).

In fact financial issues are reported as the main causes of business leaving in SMEs (GEM, 2010, p.38). Lack of financial literacy is one of the common deficiencies among small business owners. It seems that most of small businesses do not have the ability to judge the financial situations in order to make the effective decision for their money management even

if their owners have ability to read and understand the basic accounting concept (Brown et al., 2006).

It should be noted that the failure of a company does not only bring economic problem to entrepreneurs but also will damage psychologically as much as losing a lover. In addition to financial and emotional problems, the failed entrepreneurs usually have broken family relationships and also they have extreme anger to the community, competitors and debtors (Shepherd, 2003). These are only some parts of difficulties waiting for more than half of the entrepreneurs during their first three years of their business activities (Monk, 2000).

KNOWLEDGE; AN IMPORTANT ASSET OF ENTREPRENEURS

The ability to use basic data, analyzing and making correct decision is a skill which could lead to individual's joy, sense of control and mental health. Generally knowledge is the base for any needed abilities or skills (Guilbert, 2002). Knowledge is defined as memorable useful information of an entrepreneur. Meanwhile skill is defined as a mindset which leads to logical action or decision (Guilbert, 2002).

While a group of essential skills is needed for entrepreneurs' success (Hisrich and Peters, 1992; Paige, 1999), special knowledge for presenting these skills is also needed for entrepreneurs (Guilbert, 2002). One of those necessities for entrepreneurs' success is related knowledge and skills in financial literacy. Many contemporary business leaders, like Peter Drucker and David Garvin, introduce knowledge as the key factor in any organization that leads to a sustainable competitive advantage for success (Drucker 1968; Gavin, 1993; Hoegl et al., 2003; Miller and Shamsie, 1996; Powell et al., 1996; Senge, 1990; George, 1997). Indeed, without such knowledge, entrepreneurs or small and medium business owners have just less than 32% chance to become successful during the first 5 years of their business activities (Monk, 2000). This could mean that just a small percentage of entrepreneurs know exactly what should they know or how should they learn to become successful (Hisrich and Peters, 1992).

Lack of required knowledge and skills along the company's growth has been identified as one of the main failure reasons of entrepreneurs in various studies (Monk, 2000). According to some scholars the success of a SME is reflected by its owner's abilities (Lumpkin and Dess, 1996), and their high failure ratio is because of the entrepreneur's little knowledge about entrepreneurship (Hisrich and Peters, 1992). It should be noted that all entrepreneurs are regularly involved in various kind

of decision making activities which are required financial literacy to be efficient and effective (Oseifuah, 2010).

ENTREPRENEURIAL TEACHING

Business scholars like Peter Drucker pointed that entrepreneurship can be learned or at least can be encouraged by entrepreneurial educations (Kuratko, 2003; Gorman et al, 1997). Unfortunately, most of educational systems in the world just focus on training professions and they do not design to provide required knowledge for entrepreneurs (Jacques, 1996).

The current young generation at beginning of the 21st century has more entrepreneurs compared to the past like industrial age (Kuratko 2003). Currently over one-third of entrepreneurs are less than 30 years old and more than 60% of youth in age between 18 to 29 have entrepreneurial tendency to set up their business (Kuratko, 2003). Therefore this significant tendency to entrepreneurship shows more entrepreneurial training requirements. While in the past, even in developed countries, best universities did not offer entrepreneurial courses, today many universities provide related courses and issues. The numbers of universities which have these subjects are increased from one hand fingers in 1970 to more than 1600 in 2003 (Katz, 2003; Solomon et al., 2002).

Although now entrepreneurship is one of the most popular and important topic in today's academic topics, studies about how entrepreneurs learn (Rae and Carswell, 2000; Cope and Watts, 2000), and what skills they need and how to teach them (Hisrich and Peters, 1992; Chupp, 2010) are not still matured. One of the most common problems in entrepreneurial training programs is that they are mostly theoretical while entrepreneurs are operational and practical.

On the other hand, entrepreneurs need widespread and general knowledge along with advancement in specific entrepreneurial skills (George, 1997; Paige, 1999). Therefore some scholars use teaching theories along entrepreneurial theories to clarify the debates about why, what, and how entrepreneurs learn the mentioned subjects. In fact, one of the most important points is study about the entrepreneurs' required tacit knowledge and the way they could learn them (Rae, 2000).

ENTREPRENEURIAL LEARNING

The entrepreneurial learning is a process in entrepreneurial activities. Entrepreneurship is a structure in which entrepreneurs recognize, assess and develop environmental signals about presence of an opportunity and the resources that opportunity can be exploited with it (Ravasi et al., 2004). Successful entrepreneurs try to improve their entrepreneurial

activities effects through learning (Rae, 2000; Ravasi et al., 2004).

Learning is a central issue in entrepreneurship. Naturally, learning is an empirical process and result of actions and reactions (Bird, 1995). Entrepreneurs do not only learn via their personal action but from observing others' experiments or talking to their partners, employees, suppliers or even their competitors (Warren, 2004). Thus entrepreneurs develop their competencies and abilities via learning to identify opportunities and manage and organize their business venture and create added value with combination of resources, technology and their efforts (Rae, 2000; Rae and Carswell, 2000; Ravasi et al., 2004).

While small and medium enterprises mostly rely on entrepreneurial activities, the success of these activities relies on the entrepreneurs' abilities to learn fast and accurate. In other words entrepreneurial learning is essential for effective entrepreneurship (Rae and Carswell, 2000). In this way scholars suggest that entrepreneurship is a long-term learning process and therefore entrepreneurship theories need to be accompanied by learning theories (Minniti and Bygrave, 2001; Gibb, 1997). Hence financial literacy defined as skills or awareness should be considered as a process (Brown et al., 2006).

SUMMARY AND SUGGESTIONS

This study highlights the importance of financial literacy in entrepreneurs' success and then in sustainable development of societies. It indicates that there is not enough studies about teaching that significant skills to this important group for societies' progress. It also highlighted that studying about the training styles of financial literacy and skills to entrepreneurs could help economical development of the societies. Moreover more studies should be conducted in all societies especially in developing countries to examine the success factors (e.g. social and cultural factors) of effective teaching styles of entrepreneurs' financial literacy.

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