



Influence of Financial Literacy on the Investment Decisions of Small and Medium Enterprise Owners

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Abstract

Financial literacy is enhancing the nation's financial progress and promoting economic growth. In light of these changes, it is crucial to evaluate if the latest generation, especially small and medium-sized firms (SMEs), considered the principal investors, drivers, and catalysts of the economy, has the necessary comprehension of financial principles. This research identified the area of financial literacy that strongly impacts the investment choices of SMEs in Davao City. The researchers used the descriptive-correlation approach to investigate the impact of financial literacy on the investment choices of SMEs. The study participants were owners, managers, accountants, or anyone having legal capacity to represent SMEs in select *barangays* in Davao City, totaling one hundred and seven (107) respondents. The data was gathered, analyzed, and interpreted using statistical techniques like mean, standard deviation, Pearson correlation, and regression analysis. SME owners need enhanced financial literacy and improved investment decision-making capabilities. The research demonstrated a substantial correlation between financial literacy and investment decisions. Regression analysis showed that financial literacy, personal characteristics, financial knowledge, and awareness are important predictors of investing choices. The results of this research indicate the need of participating in seminars, workshops, and awareness programs that identify the warning indications of investment fraud. It will assist SME owners in improving their financial literacy and enable them to differentiate between legal investment possibilities and fraudulent scams.

Keywords

financial literacy; investment decisions; small and medium enterprises; descriptive-correlation study; Philippines

INTRODUCTION

Investment scams have become prevalent in the Philippines, victimizing individuals who place their trust and money in fraudulent schemes. In recent years, the COVID-19 pandemic has increased investment scams as individuals seek alternative investment opportunities. In a report by the Philippine Center for Investigative Journalism documenting the history of investment scams in the Philippines, small and medium enterprises are one the first confirmed investment scams in the country. Financial fraud poses a substantial problem for people and communities (Palad et al., 2019). Many individuals have been targets of new fraudulent investment schemes, resulting in selling their properties, businesses, livestock, and even their savings, all in pursuit of more significant financial gains (Levi & Smith, 2021). In their study, Castañeda et al. (2021) reported an upsurge in financially fraudulent activities, including investment schemes, during the COVID-19 pandemic. It discovered that the individuals affected were businesses that had just taken out loans to invest. Small and medium-sized enterprises (SMEs) are at a higher risk of being targets of investment scams due to their need to obtain funds quickly.

In today's economy, especially in emerging countries, a solid understanding of finances is crucial and remarkably accurate in the modern economy. Small and medium enterprises (SMEs) remain susceptible as they face several problems that limit their productivity. According to Alshebami and Aldhyani (2022), individuals need to develop their capacity to make fair investment decisions by increasing their knowledge and skills in finance. Because of its significance, financial literacy has attracted the interest of financial markets, business owners, bankers, and governments. People with a good understanding of finance can better comprehend risk-reduction measures and strategies, which can help them be better prepared for unexpected events and challenging times. Opong et al. (2023) posit that if every fellow citizen were financially literate and capable of making appropriate financial decisions, it would not be an exaggeration to say the country is prosperous.

A comprehensive understanding of financial knowledge is essential in providing the necessary information to handle our finances effectively. Gilenko and Chernova (2021) contend that individuals with greater financial literacy can make prudent retirement plans and investment decisions more quickly. In contrast, those with lower financial literacy tend to make unwise choices that negatively affect their financial resources. Business owners may need financial literacy to make better decisions when saving or investing their money. A complete understanding of financial concepts will enable individuals to prevent indebtedness, secure their initial automobile loan, and enhance their savings by engaging in investment

activities (Menike, 2019). Financial literacy can assist individuals in reaching their financial objectives, regardless of their goals.

With this, it is interesting to investigate whether financial literacy impacts SMEs' investment decisions, addressing the research question, "*How does financial literacy influence the investment decisions of SMEs?*" In this study, the researchers will mainly focus on the impact of financial literacy on the investment decisions of SMEs in Davao City. Conducting this study in the local area gives the researchers the convenience of gathering data and, most importantly, provides a first-hand understanding of whether financial literacy significantly influences the investment decisions of SMEs. Ensuring that people in Davao City have access to comprehensive financial literacy programs is one of the sustainable development goals pertaining to quality education. This would enable them to make educated investment decisions and contribute to economic growth.

Research Objective

This study primarily aims to determine the influence of financial literacy on the investment decisions of SME owners in Davao City, Philippines. Specifically, the study sought to (1) determine the level of financial literacy of SMEs in Davao City in terms of personal characteristics and financial knowledge and awareness; (2) determine the investment decisions of SME owners in terms of investor attitude, investment risk, and economic influence; (3) establish any significant relationships between financial literacy and the investment decisions of SME owners; and (4) identify which domain of financial literacy significantly influences the investment decisions of SME owners.

METHODS

Research Design

This study used a descriptive-correlational quantitative research design to assess financial literacy's influence on SMEs' investment decisions in Davao City. A descriptive correlation design was appropriate for this study, aiming to verify the influence of dependent and independent variables through quantifiable results. It also focuses on identifying connections between variables and formulating hypotheses upon making the right decisions and conclusions after the findings (Bari et al., 2019, p. 135). In addition, Wanjiku (2013) stated that the quantitative approach was applied to enable the researchers to test the significance of variables. He also said that this study approach would allow the researchers to collect survey data that could be compiled and applied to a more extensive population. This research

design strived to determine the influence of financial literacy on the investment decisions made by SME owners in Davao City.

Population and Sample

The selected research participants of this research study were the owners, managers, accountants, or anyone with legal rights and authority to represent the small and medium enterprises in Barangay 8A, Barangay 9A, and Barangay 10A in Davao City. According to the information from the Business Bureau of Davao City, there are one hundred and forty-seven (147) SMEs located in Barangay 8A, Barangay 9A, and Barangay 10A as of 2023. The required sample size from the population was calculated as:

$$n = N / [1 + (N \times e^2)]$$

$$n = 147 / [1 + (147 \times 5/2)]$$

$$n = 147 / [1 + (147 \times 0.0025)]$$

$$n = 147 / (1 = 0.3675)$$

$$n = 147 / 1.3675$$

$$n = 107$$

The researchers used a random sampling technique to identify the respondents from the list of SMEs in Davao City. This technique helped the researchers gather the needed data efficiently while eliminating sampling bias (Horton & Boyle, 2021). Furthermore, the researchers used consent forms to ensure the participants willingly participated in the survey. This study utilized one hundred and seven (107) samples to achieve its purpose.

Instruments

The instrument used is a modified, adapted survey questionnaire from the research studies of Mutuku (2015) for the independent variable and Streidwolf (2018) for the dependent variable. The researchers provided two sets of Likert-type questionnaires – one for each variable. The first part pertains to the independent variable (financial literacy) and its two (2) sub-indicators, characteristics and financial knowledge and awareness, which contain twenty-four (24) questions that were adapted from the study of Mutuku (2015). The second part pertains to the dependent variable (investment decisions) and its three (3) sub-indicators: investor attitude, investment risk, and economic influence, which contain thirty-six (36) questions taken from the study of Streidwolf (2018). A panel of experts validated the said research instrument to ensure the tool's validity, reliability, and appropriateness.

In evaluating the level of financial literacy and investment decisions of SMEs in Davao City. Through correlation analysis, results will show whether the study's variables had a

statistically significant influence. The following scale was used to interpret the results: The first section of the survey will consist entirely of Likert scale questions, with answers ranging from (1) Strongly Agree to (5) Strongly Disagree. The average score on the survey's 24 questions indicated the mean level of financial literacy among Davao City SMEs. To interpret the results, the following scale was used:

Range of Means	Description	Interpretation
4.20 – 5.00	very high	The respondents manage their wealth to a very great extent
3.40 – 4.19	high	The respondents manage their wealth to a great extent
2.60 – 3.39	moderate	The respondents manage their wealth to a moderate extent
1.80 – 2.59	low	The respondents manage their wealth to a less extent
1.00 – 1.79	very low	The respondents do not manage their wealth

The second section's questions was scored using a five-point Likert-type scale with nomenclatures ranging from (1) Strongly Disagree to (5) Strongly Disagree. The overall score on the survey's 35 questions will indicate the average degree of how the factors affect the investment decisions of SMEs in Davao City. Moreover, to interpret the results, the following scale is used:

Range of Means	Description	Interpretation
4.20 – 5.00	very high	The respondents' investment decisions are very highly affected by the factors referred to
3.40 – 4.19	high	The respondents' investment decisions are highly affected by the factors referred to
2.60 – 3.39	moderate	The respondents' investment decisions are moderately affected by the factors referred to
1.80 – 2.59	low	The respondents' investment decisions are lowly affected by the factors referred to
1.00 – 1.79	very low	The respondents' investment decisions are very lowly affected by the factors referred to

Data Collection

The researchers underwent the following procedures to collect the data needed for the study. First, the researchers sought permission to conduct the study from the small and medium enterprise owners themselves in writing. Request letters duly signed by the research supervisor and endorsed by the Dean of the College to conduct the study were handed and

approvals were sought upon receipt or through a follow-up message. Once approvals were sought, the researchers proceeded in handing the survey questionnaires to the 107 SME owners/managers especially those in the población area in District 1, which covered Barangays 8-A, 9-A, and 10-A. The questionnaires were retrieved after three days and follow ups were made to those who have not filled out the survey. After retrieval of the survey questionnaires, the researchers proceeding of checking the responses prior to tabulation of the data in Microsoft Excel. The resulting codebook was exported in JAMOV 2.4.8 and were analyzed using appropriate statistical tools and interpreted to address the objectives of the study.

Statistical Tools

The mean is a measure of central tendency that represents the average of a data set, calculated by dividing the sum of the values by their count. Standard deviation measures the dispersion of observations from the mean, using squared differences to avoid cancellation of positive and negative deviations. The Pearson product moment correlation quantifies the strength and direction of the relationship between two variables, indicating correlation when changes in one variable correspond to changes in another. Regression analysis evaluates the relationship between a dependent variable and one or more independent variables, assessing the impact of financial literacy on the investment decisions of SMEs in Davao City.

RESULTS AND DISCUSSION

Table 1 below presents the level of financial literacy among SMES in Davao City, which reveals that the mean scores for personal characteristics are ($M=1.70$, $SD=0.474$), for financial knowledge and awareness ($M=1.84$, $SD=0.511$) and resulted in an overall financial literacy of (1.77 , $SD=0.433$) and all classified as very low. These findings suggest that SME owners in Davao City need more understanding of financial concepts and techniques relevant to personal and business finances. These results agree with Mugo's (2016) findings that high financial knowledge will increase budgeting, saving, and investing capacity.

This low level of financial literacy could hold important implications for the investment decisions of these business owners. The adequate interpretation of these results shows a potential gap in the proficiency of SME owners to make knowledgeable and strategic investment decisions, which is essential for the growth and sustainability of their businesses. This gap in financial literacy may also reflect more general systemic issues, such as the accessibility and quality of financial education resources or the integration of financial literacy

Table 1. *Level of Financial Literacy of SMEs in Davao City*

	Mean	SD	Descriptive Level
personal characteristics	1.70	0.474	very low
financial knowledge and awareness	1.84	0.511	very low
Overall	1.77	0.433	very low

in economic development programs in the region. The findings correspond with the study of Utami and Sitanggang (2021). As respondents become more financially literate, their capability to make investment decisions gets better. Ultimately, this ability will help them to select appropriate investments with high returns. The result was also supported by the study of Baihaqqy et al. (2020) on how financial literacy affected investment decisions, revealing that knowledge and awareness are related to and responsive to financial services as the individual has at least basic financial knowledge. Those are the individuals who can make informed choices on investments and be able to determine the value of such investments before they make such decisions.

Moreover, the results in Table 2 below show the descriptive statistics for investment decisions. Based on the survey, the investor's attitudes, investment risk, and economic influence have respective means of 1.85 (SD=0.488), 1.82 (SD=0.508), and 1.96 (SD=0.453). Similarly, given the overall result, the investment decision level is low, with a mean of 1.88 (SD=0.343). This implies that most of the small and medium enterprises in Davao City hesitate to make investment decisions.

Table 2. *Level of Investment Decisions of SMEs in Davao City*

	Mean	SD	Descriptive Level
investor attitude	1.85	0.488	low
investment risk	1.82	0.508	low
economic influence	1.96	0.453	low
Overall	1.88	0.343	low

Among the indicators, economic influence has the highest mean (1.96), followed by investor attitude (1.85). This conveys that the factors influencing investment decisions were economic influence and a country's investor attitude since they play an essential function in the decision-making process. Siegel's (2021) study also confirmed how financial literacy influences SME investors' investment decisions, showing that many investors pay close

attention to financial concepts such as returns, investment risks, investment management portfolios, and interest rate trends. According to Gveroski and Jankuloska (2017), the main differences in investment decision-making between big, small, and medium businesses in the company operation are two: first, the ability to provide required financial resources for the implementation of the investment project, and second, the implementation method of executive functions in big, small, and medium companies. Almansour et al. (2023) indicates that investors generally hold a moderately low attitude, consider investment risk, and believe economic factors relatively influence their decisions, and the overall idea stays reasonably low.

The results of the Pearson correlation analysis shown in the table below exhibit a positive correlation and significant relationships between the independent and dependent variables. The p-values are lower than 0.05 significant level, which suggests that they are statistically significant. Overall investment decisions show the most elevated degree of positive correlation with personal characteristics ($r = 0.526$, $p < .001$), financial knowledge and awareness ($r = 0.482$, $p < .001$), and overall financial literacy ($r = 0.573$, $p < .001$). This suggests clear evidence of financial literacy affecting the investment decisions of SMEs.

Table 3. Correlation between financial literacy and the investment decisions of SMEs in Davao City

	personal characteristics	financial knowledge and awareness	Overall Financial Literacy
investor attitude	0.472 ***	0.176	0.362 ***
	105	105	105
	< .001	0.070	< .001
investment risk	0.435 ***	0.415 ***	0.483 ***
	105	105	105
	< .001	< .001	< .001
economic influence	0.199 *	0.442 ***	0.369 ***
	105	105	105
	0.040	< .001	< .001
Overall Investment Decisions	0.526 ***	0.482 ***	0.573 ***
	105	105	105
	< .001	< .001	< .001

Moreover, the positive values indicate a direct relationship between the variables. This suggests that when financial literacy in terms of personal characteristics and financial knowledge and awareness increases or decreases, the same goes for the investment decisions of SMEs in Davao City regarding investor attitude, investment risk, and economic influence. Further, the results reveal that investor attitude has an r -value nearest 1. The r -value shows the strength of the relationship between variables. Since its r -value is 0.472, it indicates a positive association. Everyone knows that it is weak when it is closer to 0. However, culture encompasses a complete understanding described and perceived through various aspects. Mainly, SMEs' personal characteristics and investor attitudes are notably solid and positive ($r = 0.472$, $p < .001$), indicating that as their understanding of individual financial aspects enhances, their attitudes toward investment also tend to become more positive.

This suggests that personal financial insight significantly shapes investment attitudes, potentially leading to more advantageous investment behaviors. The result is supported by the study of Mukhtaruddin et al. (2020), which states that a comprehensive view of life as an investor attitude develops associated efforts to improve the ability to heal from bad investment decisions and enhance lives together, establishing wealth. Also Ahmed et al. (2017) concluded that SMEs' financial literacy is essential to investment decisions. Understanding the primary financial mechanism positively influences investment decisions, leading to better goals. Based on these compelling results, the researchers rejected the null hypothesis, which states that financial literacy does not have a significant relationship with the investment decisions of SMEs in Davao City. The result implies that financial literacy has fulfilled the objective for business owners. This means that SMEs should have financial literacy to improve their investment decisions

Finally, Table 4 presents the results of the regression analysis examining the influence of financial literacy on the investment decisions of SMEs in Davao City. The intercept ($\beta = 1.070$, $SE = 0.1159$, 95% CI [0.840, 1.300], $t = 9.23$, $p < .001$) indicates that when all predictors are at zero, the baseline value of overall investment decisions is 1.070. Personal characteristics significantly contribute to investment decisions ($\beta = 0.271$, $SE = 0.0693$, 95% CI [0.1339, 0.409], $t = 3.92$, $p < .001$), suggesting that a one-unit increase in personal characteristics results in a 0.271-unit increase in overall investment decisions, with a standardized estimate of 0.375. Similarly, financial knowledge and awareness show a significant positive influence on investment decisions ($\beta = 0.187$, $SE = 0.0643$, 95% CI [0.0593, 0.314], $t = 2.91$, $p = .004$), indicating that a one-unit increase in this variable corresponds to a 0.187-unit increase in overall investment decisions, with a standardized estimate of 0.278. The overall model is significant, $F(2, 107) = 25.8$, $p < .05$, explaining approximately 31.9% of the variance in

investment decisions ($R^2 = 0.03331$, $\Delta R^2 = 0.319$). These findings highlight the critical role of personal characteristics and financial knowledge in shaping investment behaviors among SMEs.

According to Rahim and Balan (2020), it is highly recommended to participate in financial education regularly to keep them well informed and equipped with personal ways of managing their finances to ensure better planning and execution of enterprises that will inevitably lead to increasing and sustaining earnings. Improving financial literacy through education can positively impact SME owners' investment decisions. As highlighted in Table 4, higher financial knowledge and awareness levels are associated with more favorable investment decisions. By actively participating in financial education programs, SME owners in Davao City can enhance their understanding of financial concepts and strategies, which can guide them to better planning and execution of business ventures. This resonates with the personal characteristics identified in the model coefficients, which also significantly shape investment decisions. SME owners who actively engage in financial education will likely develop personalized ways of managing their finances, aligning with their unique characteristics and preferences.

CONCLUSION

Investment scams are a significant issue that has far-reaching consequences for individuals and society. Individuals, particularly small and medium enterprises (SMEs), possess diverse levels of financial literacy and exhibit differences in personal decisions. However, they all have challenges related to investment problems. SMEs in Davao City exhibit poor financial literacy, driven mainly by their focus on achieving substantial financial profits. Overall, this study uncovered that the root cause of SMEs' vulnerability lies in their very low levels of financial literacy, encompassing personal characteristics and financial knowledge and awareness. This deficiency critically undermines their ability to make informed and strategic investment decisions. Additionally, the study illuminated the low engagement level of SMEs in Davao City in making investment decisions, characterized by cautious investor attitudes, apprehension towards investment risks, and significant influence of economic factors on their decision-making.

The study yields new insights into the financial literacy levels and investment decision-making processes of SMEs in Davao City. This research uncovers SMEs' significant challenges in understanding financial concepts and traits, emphasizing the critical need for targeted support and interventions tailored to their needs. The findings of this study generally align

with the theoretical framework discussed, particularly regarding the importance of financial literacy and economic factors in influencing SMEs' investment decisions. The theoretical framework of life-cycle theory and disposition effect theory predicts the impact of financial knowledge and economic factors on investment behavior. According to Modigliani and Brumberg (1954) and Friedman (1957), the life-cycle theory suggests that individuals, or businesses in this case, adjust their investment decisions based on their stage in the economic life cycle to ensure financial stability and security. Similarly, the disposition effect theory posits that individuals exhibit biases toward realizing gains too quickly and holding onto losses for too long due to psychological factors (Weber & Camerer, 1998). The study's results corroborate these theories by revealing low levels of financial literacy among SMEs in Davao City and their cautious approach towards investments, indicating agreement with the theoretical framework.

RECOMMENDATIONS

The researchers recommend enhancing the financial literacy of SME owners and managers to help them distinguish between legitimate investment opportunities and fraudulent schemes. Recommendations involved arranging seminars, workshops, and awareness campaigns recognizing warning signs of investment fraud and understanding risk before making investment choices. It emphasizes the significance of addressing these issues through better education and easier access to funding. By collaborating with regulatory organizations, specifically the Securities and Exchange Commission (SEC), industry experts, the Department of Trade and Industry (DTI), and financial institutions, SMEs can access trustworthy information and tools to protect themselves from fraud. Empowering small and medium enterprises (SMEs) with solid financial expertise would protect their investments and enhance the integrity and stability of the economic environment in Davao City. Efforts may be made to improve financial literacy among local business owners and managers.

Secondly, SMEs may thoroughly assess financial concepts such as budgeting, risk assessment, investor attitude, and investment strategies to enhance investment decisions. Specialized education designed to address the unique demands and obstacles encountered by small and medium enterprises (SMEs) in Davao City could play a crucial role in closing the knowledge gap and enabling entrepreneurs to navigate the complexity of investment opportunities efficiently.

Thirdly, financial literacy has a substantial impact on investment decisions. Therefore, policymakers, financial institutions, and industry groups should collaborate to create and execute programs that enhance financial education and literacy in the SME sector.

Encouraging economic proficiency and self-assurance among small and medium enterprises (SMEs) in Davao City can unleash the complete capabilities of its entrepreneurial environment, fostering sustainable growth, innovation, and resilience in the local economy.

Finally, the researchers propose that future studies explore additional aspects beyond those examined in the current study. Programs and rules must be consistently implemented, refined, and optimized to improve financial literacy. Future researchers could explore different measures of financial success beyond those discussed in this paper. This would help small and medium enterprises (SMEs) modify their current strategies.

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