

7.1 What Is Financial Literacy?



3 MIN READ

According to an Intuit Canada survey with men and women entrepreneurs, 93% of respondents stated they felt at ease with business financial management concepts. However, when subsequently quizzed on financial management, 39% of those same respondents could not answer financial management questions correctly.¹

Financial literacy for entrepreneurs is typically based on three closely linked components:

- **Financial knowledge:** A person's comfort level with terms and concepts linked to business financial management, such as familiarity with entrepreneurial language, knowing where to find information and business management training.
- **Financial skills:** A person's ability to make decisions and take actions in business financial management, for example filling out tax forms, signing contracts, applying for financing and preparing a business plan.
- **Financial confidence:** Although harder to assess than the first two components, financial confidence refers to a person's self-perception when it comes to the financial management of a business.



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To learn more about women entrepreneurs and financial literacy, check out **tool 7.2**.

Main factors impacting financial literacy²

- Education level
- Professional development/training
- Age
- Gender
- Management experience
- Family

Why is financial literacy so important for entrepreneurs?

Financial literacy is a key concept that can help ensure success in an entrepreneur's journey. A good level of financial literacy can facilitate:³



A company's
growth



Access to
financing
sources



A company's
overall financial
management



An entrepreneur's
business
acumen

How can you help improve entrepreneurs' financial literacy level?⁴

- **Brush up on business terminology:** Encourage clients to familiarize themselves with the language they will encounter as entrepreneurs. Provide them with a list or recommend existing online tools. For example, the **Business Development Bank of Canada (BDC) provides an informative glossary** that delves into business terminology.
- **Question the accountants:** Owning a business automatically involves dealing with stacks of documents containing lots of financial statement information. Many entrepreneurs leave it to their accountants to deal with these documents because they don't have the time or may not be comfortable dealing with them. Encourage clients to ask their accountants questions so they can have a better idea of what is going on with their business. All entrepreneurs would benefit from being able to read and understand financial statements and related documents.

- **Learn how to be a better manager:** Urge clients to pursue training and take courses aimed at boosting financial literacy (recommend online tools). Most lending institutions already have their own tools to help entrepreneurs.
However, if needed, the BDC provides many resources for entrepreneurs:
Templates and Business Guides
Financial Tools
- **Develop a plan to monitor cash flows:** Entrepreneurs should be able to monitor cash inflows and outflows. Remind them of the importance of closely and regularly monitoring cash flows to avoid unpleasant surprises. The Canada Revenue Agency (CRA) can also help entrepreneurs better understand their tax obligations via a **free service that connects entrepreneurs with the CRA's liaison officers.**

References

- 1 Canadian Women's Chamber of Commerce and Women Entrepreneurship Knowledge Hub (December 2020). Webinar: Financial Literacy 101, session # 3, presented by Laura Didyk of the Business Development Bank of Canada, <https://www.youtube.com/watch?v=nr8tmpuVpZo> (webinar offered December 7th 2020).; Intuit Canada et Vision Critical (2014). 2014 Canadian Financial Literacy Quiz.; Brian Jackson (January 2015). "4 in 10 Canadian small business owners get 'F' for financial literacy", itBusiness.ca, <https://www.itbusiness.ca/news/4-in-10-canadian-small-business-owners-get-f-for-financial-literacy/53311> (page consulted December 8th 2020).; Lisa Wright (January 2015). "Many Canadian entrepreneurs lacking in basic financial knowledge", Toronto Star, <https://www.thestar.com/business/2015/01/26/many-canadian-entrepreneurs-lacking-in-basic-financial-knowledge.html> (page consulted December 8th 2020).
- 2 Sam Allgood and William B. Walstad (2016). "The effects of perceived and actual financial literacy on financial behaviors". Economic Inquiry, 54(1): 675-697.; Scotiabank Women Initiative (2020). Financial Knowledge & Financial Confidence: Closing Gender Gaps in Financing Canadian Small Businesses, p. 10.
- 3 Christina Constantinidis, Annie Cornet and Simona Asandei (2006). "Financing of women-owned ventures: The impact of gender and other owner-and firm-related variables". Venture Capital, 8(2), 133-157.; Barbara Orser, Marzena Cedzynski and Roland Thomas (2007). "Modelling owner experience: Linking theory and practice". Journal of Small Business & Entrepreneurship, 20(4): 387-408.; Barbara Orser and Sandra Hogarth-Scott (2002). "Opting for growth: Gender dimensions of choosing enterprise development". Canadian Journal of Administrative Sciences, 19(3): 284-300.; Scotiabank Women Initiative (2020). Financial Knowledge & Financial Confidence: Closing Gender Gaps in Financing Canadian Small Businesses, p. 2.
- 4 Canadian Women's Chamber of Commerce and Women Entrepreneurship Knowledge Hub (December 2020). Webinar: Financial Literacy 101, session # 3, presented by Laura Didyk of the Business Development Bank of Canada, <https://www.youtube.com/watch?v=nr8tmpuVpZo> (webinar offered December 7th 2020).

Disclaimer

All documents prepared for the LEADING LENDERS project were developed in line with the most appropriate and recent terminology. However, we recognize that terminology is subject to change over time. To the best of our ability, we have attempted to use terminology that respects the dignity and rights of all individuals.