# Embedding financial literacy as an organisational learning capability in SMEs: a development and learning perspective

Shahid Latif

Shahid Latif is based at Faculty of Business, Curtin University Malaysia, Miri, Malaysia.

## 1. Introduction

Small and medium-sized enterprises account for more than half of global employment and roughly 40% of gross domestic product in emerging markets; however, they remain vulnerable to cashflow shocks and financing concerns. In this regard, the significance of financial literacy in the context of SMEs has captured enormous scholarly attention to explore this phenomenon (Graña-Alvarez *et al.*, 2024). Financial literacy is considered a critical skill for managing personal finances and an essential aspect of business decision-making (Lusardi and Mitchell, 2014), particularly in SMEs where resource constraints are prevalent. Although valuable, the traditional emphasis on different aspects, such as tax incentives, credit guarantees, and subsidized training, does not necessarily lead to better financial decision-making in such enterprises. The reason is that internal decision-making capability is more critical for organizational survival than relying on sole external financial resources.

This viewpoint aims to shift the emphasis of financial literacy from the individual level to an essential organizational learning capability in SMEs. Previous research (Graña-Alvarez *et al.*, 2024) has considerably focused on the impact of financial literacy on personal financial decision-making and firm performance; however, rarely has been discussed how financial literacy as organizational learning capability can be institutionalized across an enterprise. This viewpoint extends that literature by reconceptualizing financial literacy as a firm-level learning capability that must transcend the department boundaries (e.g., the sales department needs margin impacts, procurement needs cash-conversion awareness etc.) and become integrated within organizational routines to impact organizational outcomes significantly.

## 2. Critical role of financial literacy and learning

Financial literacy is described as the knowledge and skills that are critical to making informed financial decisions. It is considered not only an individual skill but a crucial organizational learning capability in the context of SMEs. Asserting organizational learning capabilities, these are considered collective knowledge and skills that organizations apply to adapt and innovate for strategically responding to the external environment (AlSaied and Alkhoraif, 2024). If these capabilities are embedded in organizational routines, financial literacy, a critical organizational learning capability, can become a strategic asset, fostering continuous learning and adaptation essential for SMEs' sustained competitive advantage. Scholarship (Graña-Alvarez *et al.*, 2024) has accentuated that SMEs with enhanced



DOI 10.1108/DLO-05-2025-0167

Emerald Publishing Limited, ISSN 1477-7282

financial literacy levels at the organizational level can improve financial management, risk assessment, and optimum allocation of resources. Financial literacy within SMEs augments the individual managerial capacity and can cultivate a culture of informed decision-making and learning at all organizational levels. Therefore, financial literacy can positively impact strategic agility and adaptive responsiveness, enabling these enterprises to navigate an intricate financing environment. These studies exhibit that the criticality of financial literacy as an organizational capability is warranted because SMEs are less likely to secure external financing without it. The critical aspect underscored in contemporary research is financial literacy's role in knowledge integration, thereby fostering collective learning and problem-solving in SMEs.

## 3. Why an organizational-learning lens matters

Organizational learning theory matters for SMEs as it addresses how enterprises acquire, share, and utilize knowledge in a collective sense to achieve a sustained competitive advantage. From the organizational learning theory perspective, financial literacy can be considered adaptive learning, encompassing the single-loop and double-loop learning processes (Argyris and Schön, 1996). Single loop focuses on incremental improvements in existing financial routines and processes that assist SMEs in enhancing their financial management tasks. Double-loop learning involves questioning and revising the financial goals, assumptions, and values underpinning business strategies. This high-order learning capability allows SMEs to substantially adapt their routines and financial behaviors, aligning their strategies with changing market conditions and emerging financial challenges. Financial literacy at the organizational level can facilitate double-loop learning by enabling SMEs to critically evaluate their financial assumptions, objectives, and processes, thus fostering deeper organizational resilience. Based on these assertions, it is argued that financial literacy in an organizational learning framework is critical. Only those SMEs that are proficient in single and double-loop financial learning can demonstrate the capability to adapt strategically.

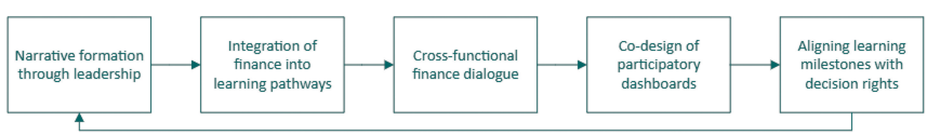
## 4. A Five-stage framework for embedding financial literacy in SMEs

Financial literacy within SMEs is a cumulative learning journey in which day-to-day routines gradually expand into more sophisticated financial insight. Although the five stages (Figure 1) below appear sequential, firms frequently cycle back and forth as circumstances evolve.

*Stage 1: Narrative formation through leadership* – Organizational learning commences with the sense-making process. In this regard, leaders are critical in translating the core financial constructs into a narrative relevant to the staff. For instance, the owner or CEO may initiate the significance of cash management, facilitating the culture of inquiry, aligning with the early stage of knowledge dissemination in organizational learning theory.

*Stage 2: Integration of finance into learning pathways* – This stage focuses on repeated and embedded financial micro-learning across the hierarchies within an organization (e.g., weekly team gathering for discussion). Integrating learning into day-to-day practices

**Figure 1** Five stage framework for embedding financial literacy




**Source:** Author's own work

enables SMEs to generate experiential learning loops that reinforce retention and facilitate immediate application, portraying the iterative process in single-loop learning.

*Stage 3: Cross-functional finance dialogue* – This stage asserts that regular and inclusive talks across different functions (e.g., sales, procurement, finance teams discussion about strategies for cash flow management, etc.) exemplify collective sense-making and double-loop learning. These dialogues deepen the systematic financial understanding and encourage collaborative learning.

*Stage 4: Co-design of participatory dashboards* – This stage facilitates employees from different departments to co-design the dashboard together rather than focusing on read-made reports or charts (e.g., operations staff might develop a cash conversion dashboard with finance, ensuring metrics reflects their realities and driving engagement). Co-design fosters ownership and contextual relevance and transforms monitoring into a dynamic learning artifact, reflecting the learning-by-design mechanism.

*Stage 5: Aligning learning milestones with decision rights* – Financial competence becomes organizationally embedded when associated with authority in this last stage. Linking decision rights (e.g., budget approval, budget autonomy) to reflect financial competence institutionalizes the learning and ensures accountability.

## 5. Enablers and barriers

The effectiveness of the above five stages framework relies on the enablers:

1. *Psychological safety* – a psychologically safe environment is essential for financial literacy and organizational learning, where employees can express their confusion and curiosity without fear.
2. *Resource allocation* – Time is a critical resource for learning. Those SMEs that allocate resources, particularly time, can foster the cumulative financial literacy learning environment supporting the single and double-loop learning process.
3. *Role clarity* – Assignment of joint ownership of financial literacy development to cross-functional teams (e.g., operations, HR, finance, etc.) reflects the distributed learning responsibilities.

Along with enablers, it is essential to consider the potential barriers:

- Some managers can think that finance is just for accountants or sharing financial information may embarrass people if results are bad. These attitudes can stop learning.
- Many employees feel anxious about numbers, which may impede their understanding of financial literacy.
- If leadership in SMEs is disengaged, the learning activity of financial literacy may not flourish.

## 6. Implications for research and practice

The five-stage model presented in this viewpoint carries notable implications for research and practice. From a practical viewpoint, the evidence supports the notion that financial resilience in SMEs is cultivated more effectively through incremental, embedded learning practices than externally imposed policy directives. The five-stage model is a phased and scalable approach for generating organizational financial literacy. For scholars, fruitful avenues include longitudinal designs that track the maturation of learning routines over multi-year horizons and comparative studies that explore cultural moderators in different regions.

## 7. Conclusion

Financial literacy is often framed as an individual trait or a public-policy objective. This viewpoint offers a shift in perspective by asserting that financial literacy is an organizational learning capability that SMEs can cultivate through deliberate, low-cost learning routines embedded in daily organizational life. The proposed five-stage framework offers a practical guide to operationalizing this capability.

*Keywords:*
Engagement and learning,
Organizational change and learning,
Organizational learning,
Experiential learning

## Acknowledgements

This viewpoint solely belongs to the author's work. LLMs have been incorporated just for the sole purpose of linguistic clarity and addressing grammatical concerns.

## References

AlSaied, M.K. and Alkhoraif, A.A. (2024), "The role of organizational learning and innovative organizational culture for ambidextrous innovation", *The Learning Organization*, Vol. 31 No. 2, pp. 205-226, doi: 10.1108/TLO-06-2023-0101.

Argyris, C. and Schön. (1996), *Organizational Learning II. Theory, Method, and Practice*, Addison-Wesley, Reading, MA.

Graña-Alvarez, R., Lopez-Valeiras, E., Gonzalez-Loureiro, M. and Coronado, F. (2024), "Financial literacy in SMEs: a systematic literature review and a framework for further inquiry", *Journal of Small Business Management*, Vol. 62 No. 1, pp. 331-380, doi: 10.1080/00472778.2022.2051176.

Lusardi, A. and Mitchell, O.S. (2014), "The economic importance of financial literacy: theory and evidence", *American Economic Journal: Journal of Economic Literature*, Vol. 52 No. 1, pp. 5-44.

## Corresponding author

Shahid Latif can be contacted at: shahidlatifhcc@gmail.com