Chapter 25
Resilience in Times of Crisis:
Roles and Impacts of Financial Literacy

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ABSTRACT

Because of the crisis, businesses face situations of declining revenues and increasing expenses that impact directly their financial situations. Despite all the efforts states make in terms of exemptions and financial subsidies, business leaders will have to change their investment and financing decisions. This highlights the importance of business leaders' financial knowledge and skills, which raises the issue of financial literacy among these entrepreneurs. Financial education has been shown to influence the success of small businesses. However, issues of resilience are rarely studied from a financial literacy perspective; indeed, the relationship between the two has only been addressed in a contingent way. This research work aims to advance a conceptual framework that explains the relationship between financial literacy among entrepreneurs and their companies' performance through resilience. Based on a theoretical methodology, the authors develop research proposals to clarify the mechanisms that govern these relationships and build a conceptual model.

INTRODUCTION

The Covid-19 crisis had an impact on organizations, particularly entrepreneurial structures. They found themselves in a vicious circle that led to a fall in consumption and production causing a fall in investment and an increase in unemployment; this, again, led to a decline in consumption and production, and so on (El Halaissi, 2020).

According to the World Bank, "the pandemic and the measures taken to stem the pandemic have steeply weakened activity, while increased investor risk aversion has tightened financial conditions"(World Bank, 2020,p.87).

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Faced with this situation, a significant number of countries have introduced considerable measures to preserve their private sector, by extending loan maturities for small and medium enterprises (SMEs) or by granting wider exemptions for the payment of rents and taxes and social charges (Gharbaoui, 2020; World Bank, 2020).Despite all these efforts, companies faced situations of declining revenues and rising expenses directly affecting their financial situations.

In a published report, the Organization for Economic Cooperation and Development (OECD[1]) (2020) stated that, on the response to the Covid-19 crisis in MENA countries, "less capitalized companies have sometimes been forced to sell minority shares or even the whole company. Firms facing a long-term loss of income and cash flow difficulties run the risk of becoming insolvent or even discontinuing their activities" (p.23).

According to Ingirige et al. (2008), SMEs suffer the most, in times of crisis, and are the least prepared to face the shock. Indeed, they are more vulnerable and sensitive to environmental hazards; this vulnerability is linked to the lack of financial, technological, and human resources.(Sullivan-Taylor & Branicki, 2011).

In this context, the company's manager, based on their tasks and duties, fosters responsiveness in turbulent environments and is the main manager of financial risks (Abou Khalil, 2014). Thus, any business leader will be called upon to make sometimes complex financial decisions. These financing and investment decisions, and specifically in times of crisis, can succeed or fail and therefore threaten the survival of the company.

In fact, a company's success largely depends on how it finds, allocates, uses, and manages its funds. This means that the manager of the company must certainly have a level of literacy in finance and cash cycle, if the company seeks to manage its capital effectively (Agyapong & Attram, 2019).

On the other hand, the financial services industry is characterized by rapid change and increased competition, due to the combination of a multitude of factors. Indeed, financial products develop continuously and result in new innovations; also, thanks to technological progress, new electronic means of commercialization and integration of financial markets and globalization, the financial services sector is evolving very rapidly (Karsenti, 2017).

In this view, the manager of the company is faced with an increasingly wide range of products and services intended to meet a wide variety of needs and situations. It is difficult for them to assess the future performance of these complex products. In fact, the asymmetry of information remains important: Even a simple financial product can seem complex to the average consumer, who is poorly or not at all financially informed (Commission of the European Communities, 2007). This raises the question of one's skills, financial knowledge, and self-confidence. In other words, financial literacy in leadership.

However, despite the importance of SMEs in many economies, that represent more than 90% of the entrepreneurial structure (Poon & Swatman, 1999), major financial literacy studies have focused primarily on personal finance issues, leaving a gap in the effect of executive financial education on small business performance (Brown et al., 2006).

The experience of the Covid-19 crisis has shown that no company is vaccinated against this type of event. However, and despite a case of extreme crisis, some companies manage not only to come out of it well, but to even obtain a very good performance, sometimes shortly after emerging from the crisis (Risquez, 2013).

In fact, some SMEs have the ability to develop adequate organizational responses to cope with difficulties and thrive in conditions of extreme uncertainty and crisis, despite vulnerability. This means that they are resilient (Yacoubi & Tourabi, 2020). Indeed, companies must demonstrate a performance which,