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DETERMINING THE FACTORS AFFECTING FINANCIAL WELL-BEING OF SOLE PROPRIETORS IN SHIKARPUR PAKISTAN

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Abstract
The key objective of this study is to determine the factors affecting financial well-being of proprietors in Shikarpur district of Pakistan. Specifically, this study is subject to explore the effect of profit management, education level, credit risk and natural risk over the financial wellbeing of the sole proprietors practicing in district Shikarpur. To achieve the objectives of this study, we included the data of 370 respondents collected via close ended questioners. The results reveal that, Profit management, education level, credit risk and natural risk significantly affect the financial well-being of proprietors in Shikarpur district of Pakistan. The study recommends that proprietors should maintain their profit management for the reason of being financial stable, they should also participate in various business training to maintain their business very well. It is also suggested that sole proprietors should have a second plan about natural disasters to better survive if there is a mishap.

Keywords: Proprietors, Profit Management, Credit Risk, Education Level, Natural Risk, Financial Well-being.

Introduction
Whenever you open a company there are several types like sole proprietorship, partnership and corporation. Independently they have their own rules and regulations. Before creating a business, an individual must give preference to the type that is best suitable for his business.

Sole proprietorship
The sole proprietorship is the unorganized business of an individual single owner who pays individual income taxes from the profit of the business. Most of the proprietors open their new businesses with their names because names aren’t mandatory in creating separate businesses. Also talking about sole proprietorship, a sole proprietor is the most uncomplicated type of business to create. Because of fewer government regulations over sole proprietors, most little business begins as a sole proprietorship and either stay that way or expand and transition to a limited liability entity or corporation.

Background
In district Shikarpur most of the proprietors started their businesses in the 1900s and still, they are running their businesses like flour mills, rice mills, pickles, footwear shops, bakers, etc. Most business owners give preference to sole proprietorship instead of partnership the rationale to avoid the partnership is the conflict that takes place in decision-making due to the diverse thinking patterns of proprietors, hence they choose sole proprietorship.

As a result, proprietors face difficulties in different issues like transport, credit and natural disaster risk. Let’s talk about transport in the 1900s there was a concept of donkey carts, and horse carts, through which proprietors deliver their products from one place to another & it was also time-consuming and expensive. On the other hand, proprietors of district Shikarpur faced difficulties in tracking creditors because most of the creditors ran away by taking products on credit. At that time most of the proprietors thought that our businesses grow if we gave products on credit to make strong relationships with customers. Natural disasters also make it difficult for proprietors in certain things because they affect agriculture through climate change like floods, heavy rain, and locust attacks. Consequently, if crops are destroyed then it affects on production of agricultural products like wheat, rice and flour and it ultimately affects the supply of agricultural goods in the market.

From the 1900s there are few legal government requirements on operating businesses like anyone can not open that type of businesses in the city which can harm people/society. Just like fuel stations and factories as well as warehouses, any proprietor who owns a new business, has to register his business in government record. Every small business has an association/union in which they make a group of proprietors and choose one president of that association/union who makes decisions and is responsible for the registration of new proprietors and also helps them to get their license.

Objective of the study

To find out the impact of profit management on the financial well-being of sole proprietors.
To find out the impact of education level on the financial well-being of sole proprietors.
To find out the impact of credit risk on the financial well-being of sole proprietors.
To find out the impact of natural risk on the financial well-being of sole proprietors

Operational Definitions

Proprietors:

A proprietor is the only legal owner of a business. The business is generally unincorporated or a sole proprietorship.

Growth:

Business growth is the process of expanding and becoming more successful over time. This may be accomplished in a variety of methods, including increased sales, expansion into new areas, and the development of new goods or services.

Profit management

Profit management refers to the manipulation of bookkeeping items within the context of accounting rules for the advantage of the sole proprietor's business.

Credit Risk

Credit risk is the probability of a financial loss resulting from a borrower's failure to repay a loan.

Natural Risk

Natural risks or natural risks are risks recognized in risk management that are related to the loss of natural assets.

Education literacy

The ability to recognize, comprehend, interpret, generate, communicate, and compute using printed and written resources associated with varied environments.

Review of Literature

Small and rapidly growing businesses are so important for economic prosperity and small businesses that are growing at the lowest level can maintain themselves. Rapid-growing sole proprietors play significant roles in developed economies (Storey and Greene, 2010). The sole proprietorship is highly responsible for maintaining a high ratio of employment in developed countries (Storey and Greene, 2010). Besides, the growth of proprietorship in these 12 developed economies as in results they are responsible for making the external environment stable (Storey and Greene, 2010). Proprietors support large firms by selling products of large companies as well as providing them with services and supplies they require for their competitive business. Proprietors can introduce different goods and services and sell them in the consumer market, especially specialized markets that are too small for bigger proprietors to consider worthwhile.

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Financial well-being is a key factor in quality of life and overall well-being. And it is likely to impact other aspects of quality of life such as health and health care. Financial well-being is described as a condition of being financially strong and happy as well as free from every aspect of depression (Joo 2008). The U.S. Consumer Financial Protection Bureau (CFPB) explains financial well-being as a four-part concept that encompasses the capability to maintain day-to-day finance, having the ability to select financial alternatives, the capacity to withstand financial shocks, and progress towards long-term objectives (CFPB 2015). Individual and family financial well-being likely has considerable impacts on other aspects of quality of life, such as health and health care.

Growth is examined as a phenomenon that is a result of various factors. Internal and external control of owners of sole proprietors. One of the biggest problems that is found while analyzing the growth of sole proprietors and many researchers consider the length of growth while not recognizing the existence of important qualitative differences in how proprietors gain growth (McKelvie and Wiklund, 2010). An additional problem concerning the issue of growth is typically the attention on general factors that affect growth, associated with the basic characteristics of the business, also known as demographic factors, such as size and age of the business, a form of organization, ownership, the type of industry in which it operates, and so on (Wiklund et al, 2009). These factors are often beyond the control of the owners of small businesses, especially those related to growth and development. Growth may be observed by some entrepreneurs as the survival of business on the other hand growth is nothing more than the provision of personal satisfaction for themselves, and the capability to meet social, environmental, and family responsibilities (Storey & Greene, 2010: 207). Looking at growth from the perspective of the performance of a business depends on the sales level, profit margin and market share (Storey & Greene, 2010: 207).

Stages of sole proprietorship growth

Various growth Models represent different stages of development, and transitions between them help explain the main challenges faced by small businesses that might determine their growth. Every stage of small business development is seen as a separate viewpoint of the growth of the company.

The initial stage of development:

Small businesses at this stage are focusing both on creating products and markets. At this stage, human resources are provided, markets are entered, and some financial results are demonstrated while gaining customer trust (Churchill and Lewis, 1983).

Survival stage of small business:

In this second stage, Small firms start controlling their growth by focusing on their initial achievements, using the positive outcomes of their previous efforts. However, this stage is identified by higher revenue and increased complexity. (Scott and Bruce, 1987).

Success stage of small businesses:

The challenge that owners face at this stage of changeover is whether they should capitalize on the business's successes and expand, or maintain the business as it is. In the phase termed sub-stage success, the business maintains strong economic health, is large enough, and possesses a sufficient degree of market share. (Churchill and Lewis, 1983). The owner focuses more closely on the demands of consumers, which is followed by greater efforts to improve business quality requirements. Effective assignment is helped by management in the shape of an operational budget. In terms of stage success, substage growth indicates an individual approach to the business's prospects. (Churchill and Lewis, 1983).

Take-off stage of small business:

This is an ongoing process that is followed by planned growth to gain market share, turnover, and profit. Although there is growth, the primary goals of this stage are related to the expansion of business capital. (Butler, 2006).

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Resource maturity stage of small business:

The biggest challenge for a business approaching this stage is the stabilization and control of the financial gains generated by rapid growth, along with maintaining the advantages of a small business, which indicates versatility in reaction and a willingness to take risks. Under this stage of growth, the business frequently focuses on the efficient leadership of its goods or services instead of the growth of its activities.

Profit Management

Earning management takes place when managers utilize rules and regulations in financial reports. Managers can manipulate the information to mislead stakeholders about the company's economic situation by bringing changes in transitions and structuring them in financial reports (Healy and Wahlen, 1999). Managers make some set of accounting policies (i.e. GAAP), the reason to set some accounting policies is to increase their utility or the market value of the firm, this is called earning management (Scott, 2003). From the above discussion, it is concluded that earnings management is all about accounting policies that are utilized by management in the process of assembling transitions and financial reporting of the company to achieve some objectives. In the statement of Arthur Levitt (1998), chairman of the Securities and Exchange Commission (SEC), earnings management (earnings management) is described as financial fraud. According to Mulford and Comiskey (2002), earning management is all about the manipulation of profit it can create an impression on the performance of the business. Likewise, the prediction that is made by an analyst’s impression of change in performance can never be always favourable it can be meaningless earning measurement. One measure of improved future profit expectations is the quantity of managed earnings numbers. In addition, compared to unmanaged profits, the time series' managed earnings volatility offer a more accurate measure of financial risk. Earnings management, however, has the potential to lead to serious omissions and misstatements of pertinent data and disclosures, and this behaviour is meant to deceive or cheat users of financial statements Scott (2003). If the short-term profit can be predicted statically and eliminated from reports, the manager only reports the permanent profit then he reports that profit will increase over the period. This view of manipulation can never be tolerated but also it is recommended by the shareholders for its interest. Generally, shareholders don’t have any choice because of their limited information they allow managers to manage profit management. Shareholders also prevent managers from stopping their expenses as well as they keep an eye on managers with audit technology (Arya, et al.2003).

Credit Risk:

Credit risk refers to the potential loss that may arise from a borrower's inability to meet debt obligations or repay a loan as required (Konovalova, Kristovska, & Kudinska, 2016). To mitigate this risk, companies assess five critical criteria: credit history, repayment capacity, capital, loan terms, and associated collateral Customers with a high credit risk are more likely to default on debts, resulting in higher interest rates charged by banks or companies. Effective credit risk management is essential across industries, as it enhances overall company performance, growth, profitability, and competitive advantage (Algamal & Siddiq, 2019). Additionally, it aids in reducing revenue losses and enables the management team to identify high-risk clients, thereby supporting long-term business sustainability and growth (CrifHighMark, 2019)

Financial Literacy:

The success of the Micro, Small, and Medium Enterprises (MSME) sector hinges on the financial literacy of its participants (Anshika, 2021). Financial literacy encompasses a range of definitions, but it primarily involves understanding basic financial concepts and performing tit simple calculations (Lusardi and Mitchell, 2014). Financial literacy is integral to individuals' lives, facilitating informed financial decisions (Orton, 2007). The World Bank defines it as a combination of understanding financial products, concepts, and abilities, along with the confidence to assess financial risks and opportunities (Kalekye and Memba, 2013), In regulatory contexts of the Indonesian Financial Literacy National Strategy, financial literacy encompasses knowledge, skills, and beliefs that influence decision-making and management to improve overall well-being (Soetino and Setiawan, 2018). Financial literacy significantly contributes to enhancing financial well-being, enabling individuals to make informed decisions that impact their businesses and overall welfare.

Natural Risk

The first study on the impact of the disaster on business performance was conducted in the late 1980s. It was the first attempt in the United States after the earthquake in 1989. In 1997 related studies were conducted after the catastrophic events of the Great Midwest flood Northridge earthquake in 1994 and the Red River flood in 1997. According to some literature, many studies have been conducted related impact of disasters on businesses in the United States and other developed countries. There are very less studies on this context in developing countries. Proprietors have few financial and technical resources to minimize the risk and they lack risk management mechanisms. Many small businesses mostly in developing countries are not practising disaster risk management mechanisms such as insurance, diversifying their supply and customer bases and social protection for their employees. Secondly, disasters may have more impact on small businesses' performance compared to other issues because disaster affects the communities where firms operate. According to the US Institute for Business and Home Safety, 43% of businesses don’t reopen their businesses after a disaster happens and 29% close their businesses after a couple of years. Flooding impacts can be divided into different categories like short time, long time, direct and indirect etc. Direct impacts like damages of capital fixed assets, raw materials and deaths. Indirect impacts like something happens in production and services or continuity in businesses. Many impacts of flooding are visible like damage to property, and temporary business closure. However, there are some adverse impacts of flooding which are not visible. Like loss of paper and documents because of flooding. These would impact of recovery process and tracing order status/payments and insurance claims. According to Metcalf et al. (2010), these impacts are divided into six categories which are: markets, logistics, premises, people, procedures and finance. In 2015, the Philippine Institute for Development Studies re-divided all these disaster impacts on business into four categories, namely: capital, labour, logistics and market.

Hypothesis

H_1: There is a significant impact of profit management on the financial well-being of sole proprietors.

H_2: There is a significant impact of education level on the financial well-being of sole proprietors.

H_3: There is a significant impact of credit risk on the financial well-being of sole proprietors.

H_4: There is a significant impact of natural risk on the financial well-being of sole proprietors.

Research Methodology

Research Design and Settings

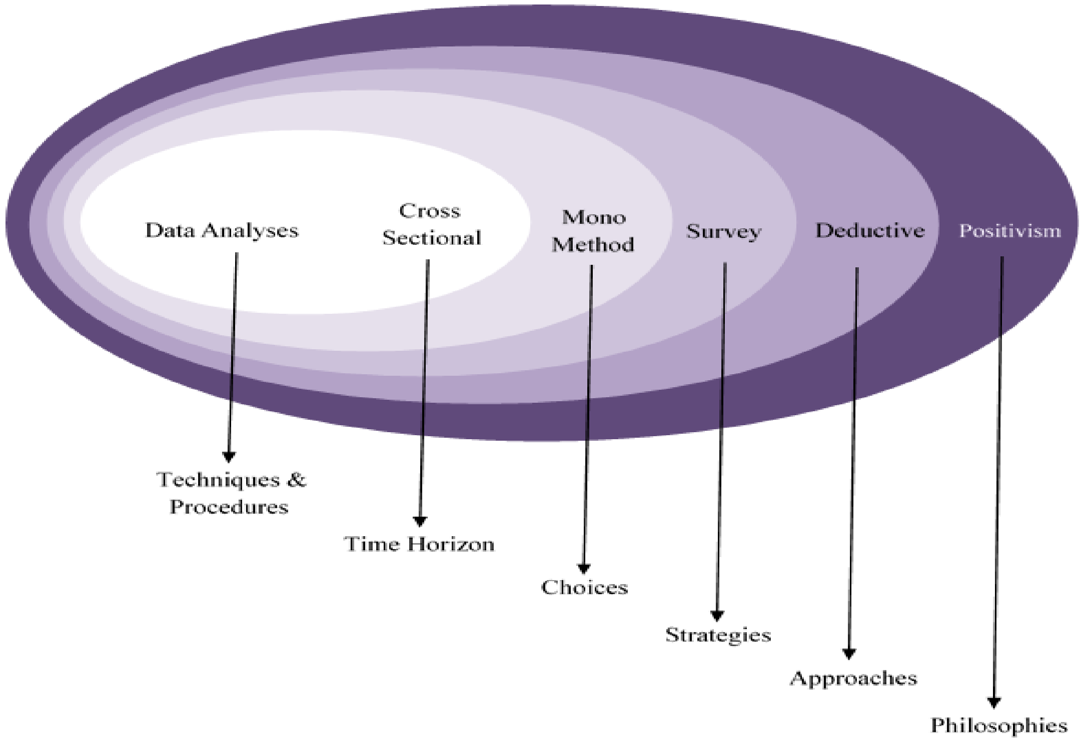
In this research study the quantitative approach was used for data collection to understand the factors that are involved in the financial well-being of a sole proprietor in district Shikarpur to know the impact of independent variables on dependent variables.

Inclusion Criteria

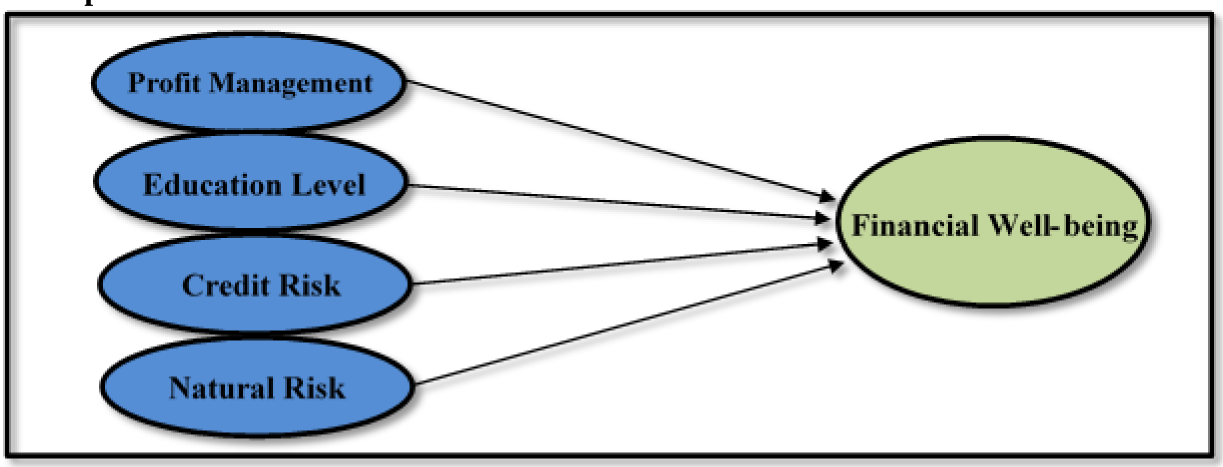
The study's inclusion criteria encompass Proprietors who are operating their businesses within District Shikarpur for this study.

Exclusion Criteria

The exclusion criteria encompass proprietors who are operating their business out district because this study focuses on proprietors who are operating within the Shikarpur district.



Conceptual Model



Sample size estimation

This study focuses on sole proprietorship which was based on information from the 385 respondents and we have categorized it into two aspects 5% for error and 95% for confidence level. We have chosen non-probability sampling.

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Study Parameters

The study measures the impact of Profit management, Natural Risk, Education level, and Credit risk on the financial well-being of proprietors. This research is conducted through surveys.

Ethical Considerations (if Any)

Certain rules were formulated to satisfy the proprietor for providing information. Proprietors were ensured that their information would be confidential. The proprietor's wish was prioritized during the data collection process.

Data Collection

Four hundred ten questionnaires were distributed among different proprietors who are operating their businesses throughout Shikarpur. Three hundred eighty-five filled questionnaires were received. Mostly male proprietors attempted surveys. Most responses were received by age interval of (20-40).

Statistical Analysis

The data was analyzed in SPSS while performing Techniques such as relaiblity and regression. Reliability is checked of data to know whether data is reliable or not Regression Technique is used to measure the impact of independent variables on dependent variable

Results

Reliability

The Cronbach's Alpha value shown in the Reliability Statistics table is .707, suggesting good internal consistency reliability for the scale with this sample. Values are above than .7 are considered acceptable; however, values above .8 are preferable.

ty Statistics

's Alpha	's Alpha Based zed Items	s

Regression

The regression analysis is the statistical model, it is used to determine the effects of independent variables on dependent variables. In the case of this study, the independent variables are Profitability Management, Education Level, Credit Risk, and Natural Risk. Where the dependent variable of the study is Financial Well-being. The tables in the sections below represent detailed results.

Model Summary

The was used in SPSS 18 to check the impact of independent variables (Profit Management, Education level, Credit Risk, Natural Risk) on the dependent variable (Financial well-being), the total impact is reported 98.8% on the dependent variable (financial well-being) it is found in table Model summary.

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s: (Constant), NR, CR, PM, EL

ıt Variable: FWB

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ANOVA

ANOVA reports model fitness because its P value is 0.000 which is less than 0.05 therefore it is significant.

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ors: (Constant), NR, CR, PM, EL

dent Variable: FWB

Empirical Results

The model predicts good results. In the coefficient table, the value of tolerance is reported as more than 0.10 so there is no issue of multicollinearity and the VIF value is also accurately reported because the value of VIF is less than 10.

Profit Management (PM) makes the highest positive impact on financial well-being in the coefficient table with a beta value of 0.450 and its P value is 0.000 which is less than 0.05 therefore it is significant.

The Credit Risk (CR) makes 2nd highest positive impact on financial well-being with a beta value is 0.434 and its P value is 0.00 which is less than 0.05 therefore it is significant.

The Natural Risk (NR) makes the 3rd highest positive impact on financial well-being in the coefficient table which the Beta value is 0.359 and its P value is 0.00 which is less than 0.05 so it is significant.

The Education Level (EL) makes the 4th highest positive impact on financial well-being in the coefficient table which the Beta value is 0.347 and its P value is 0.00 which is less than 0.05 so it is significant.

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dent Variable: FWB

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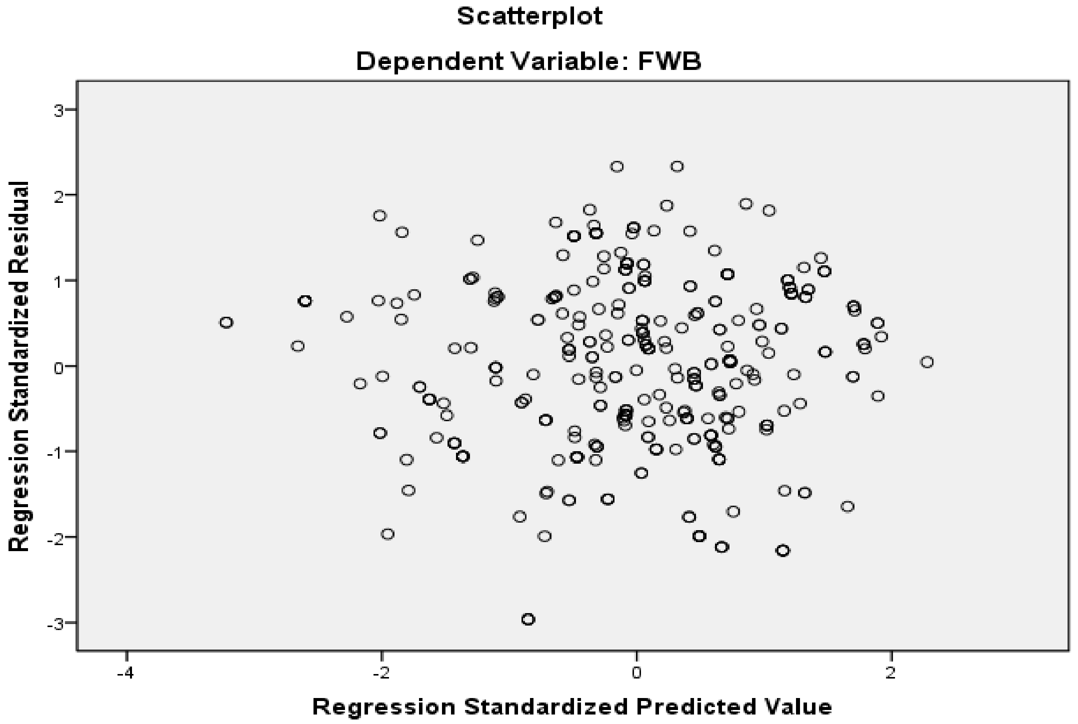
Histogram

There is normality of data which is shown as equal distribution data in the Histogram.

Scatterplot



DISCUSSION

H_1: There is a significant impact of profit management on the financial well-being of sole proprietors.

The Hypothesis is tested, and it results, there is a positive impact of Profit management on financial well-being, if a proprietor wants to increase his financial well-being proprietor would maintain their checks and balances also would easily know the profit and losses. The significance of this hypothesis will help existing and new proprietors to maintain their financial well-being.

H_2: There is a significant impact of education level on the financial well-being of sole proprietors.

The present study contributes to existing research on determinants of financial well-being in multiple ways. While the prior research works focused on students, women, and other salaried-class, this study is exclusively related to business school faculties, virtually non-existent in the literature. Moreover, the present study analyzes the impact of financial literacy on the financial well-being of business school faculties, i.e., financial self-efficacy. Financial literacy- is seen to develop self-assuredness in an individual which can enhance personal finance management skills. In addition to financial literacy, financial literacy plays an important role in magnifying the financial well-being of an individual. This finding has not received much attention in the existing literature. Finally, the present study employs subjective measures for all the constructs instead of objective measures. The underlying reason for such a choice was necessitated by the fact that subjective measures address the inherent limitations of objective measures. They provide insight into how individuals perceive financial literacy, perceived impact on financial well-being from an individual's perspective.

The findings of the study have implications for policymakers, educational institution administrators, financial analysts, financial planners, and most importantly the business school faculties themselves. The findings could be employed to develop financial education programs that will help business school faculties impart the knowledge and skills to manage their finances in terms of savings and retirement planning and thus improve their overall financial well-being. Moreover, people with low levels of financial literacy are most vulnerable to online fraud, inter-net phishing scams and financial cybercrimes. All such activities are aimed at credit card thefts, capturing user credentials and gaining illegal access to bank accounts of individuals. So, business faculties can disseminate financial knowledge to other people, who can become financially literate, which can help them to protect themselves from such frauds. Additionally, students who are the beneficiaries of educational loans have little experience in servicing such loans properly. The dissemination of financial knowledge from business school faculties to students has the potential to become a life-long pursuit for financial education. Thus, students by being financially literate, can develop personal financial management skills which can increase their financial well-being.

The results further reveal that an R-square value of 0.32 indicates that financial Literacy explains 32% of the variance on financial well-being. Financial Literacy has a significant impact on financial well-being. Mueller et al. 2009; Chen et al. 2001; Chowdhry and Dholakia 2016). Moreover, financial literacy-efficacy induces a strong belief in an individual regarding financial decisions, when based on sound financial knowledge, will help to secure a future financially (Netemeyeret al. 2018). According to current results, financial literacy has impacted 32% of financial well-being mostly results are matching with the previous results those are found by (Chowdhry and Dholakia). It is also reported as significant.

H_3: There is a significant impact of credit risk on the financial well-being of sole proprietors.

The Hypothesis is tested and the results show a positive impact of Credit Risk on financial wellbeing. Credit risk is also responsible for increasing the financial well-being of the proprietor. Most of the proprietors maintain their businesses through credit risk. Risk management is critical in the Banking industry to ensure the reliability of the operations and procedures followed within the Banks, and credit risk management is no less significant than risk management cause of the complexity that involves dealing with the most crucial activity for the Bank (lending) in terms of profitability and risks that face the Banks. Therefore, many studies have been conducted and indicated to credit risk management in the previous and recent centuries, which means that credit risk management was and still is a significant field in research and studies.

The value of Variance for the domain of Credit Risk reached 9.423 at the level of significance (0.000), which is less than 0.05, which means that it is statistically significant in favour of the realistic mean of 27.48 (Al Gamal, 2019). According to current results, the credit Risk has been impacted positively by the variance of 43% on financial well-being the percentage of variance is reported as greater than the results of (Al Gamal, 2019) that is reported in the study. Similarly, it is shown significant.

H_4: There is a significant impact of natural risk on the financial well-being of sole proprietors.

The Hypothesis is tested and results confirm a positive impact of Natural Risk on financial well-being. Sometimes having significant Natural Risk leads to financial well-being. Heavy rains also lead to maintaining financial well-being because there would be an increase in sales of plastic which is widely used in rainy weather.

Disasters have shown significant impacts on all types of business in both developed and developing countries. Both direct and indirect impacts of natural disasters are devastating to business activities and their continuity. These catastrophic events have created a significant negative impact on most business entities including Micro Small and Medium Enterprises

(MSMEs) in recent years. Though there are many studies have examined the impact of natural disasters on individual households and the broader macroeconomic climate, the impact of natural disasters on MSMEs is one of the least explored areas in the discipline of disaster risk reduction (DRR). According to the extant literature, MSMEs are more vulnerable to natural hazards than large firms because MSMEs: tend to operate in sub-optimal locations; are smaller and financially weaker; have a more limited, usually local market; tend to implement less DRR measures and be more excluded from recovery programs. The impacts of flooding can be categorized in numerous perspectives such as short-term - long-term; direct - indirect; etc. Direct impacts are the damages to fixed assets and capital, damages to raw materials, crops, injuries and deaths. Indirect impacts refer to the issues created in production/services or the continuity of the business. The most devastating impact was damage or loss of equipment which accounted for 67% of the destruction level. This study further identified that 65% of firms' trading income had been destroyed. Depicts the ranking of impacts according to RII values. According to the damage or loss of equipment was ranked top as the impact experienced by the MSMEs owners. Even though many MSMEs do not have very sophisticated equipment, the existing ones are very important for them to continuity of the business. Moreover, the equipment might be the biggest portion of the assets of many MSMEs, hence owners were worried about damaging them. Loss of trading income has been identified as the second highest negative impact of flooding on MSMEs while inability to conduct business took third place.

Limitations

Shortage of Time:

The time limitation for this project is four months hence, an increase in time limit may have more implications for the project.

Cost limitation:

The project has cost limitations because it may cost more for researchers hence, the researchers would seek financial assistance from ORIC whenever needed.

Equipment:

Limitation of equipment may also cause hurdles therefore; the researchers would partially depend on ORIC in the university.

Lack of accountability:

Non- maintenance of records by proprietors may have implications on data collection.

Strength of Study

Results match with hypotheses, results are strongly supported by developed hypotheses in this regard there has not been any gap to conducting a research study on this particular topic within District Shikarpur, results will have variance if the population changes.

Weakness of Study

Countless factors can impact the financial well-being of proprietors. There are a few factors there impact has been measured on financial wellbeing. There will be variance in results if there are changes in simple size or changes in the targeted population can also affect the result.

Conclusion

It is concluded that all the factors (profit management, Education Level, Natural Risk, Credit Risk) are impacting the financial well-being of proprietors. Financial well-being is to be maintained/increased while utilizing these factors in proprietorship.

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