

**FROM FINANCIAL LITERACY TO FINANCIAL WISDOM:
A DECISION-CENTRIC FRAMEWORK FOR MICRO-BUSINESS
PERFORMANCE IN EMERGING MARKETS**

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ABSTRACT

Despite sustained global investment in financial literacy initiatives, their impact on micro-business performance remains inconsistent and insufficiently explained, particularly in emerging markets. Existing approaches largely assume that financial knowledge and skills translate linearly into improved decision-making and firm outcomes. However, this assumption overlooks the complex, uncertain, and context-dependent environments within which micro-entrepreneurs operate. This paper develops a conceptual framework that advances the notion of financial wisdom as a higher-order construct explaining how individuals effectively translate financial knowledge into action. Financial wisdom is proposed as the capacity to decide well under conditions of uncertainty, constraint, and complexity — the quality of financial judgment that knowledge alone can inform but never replace. Formally defined, financial wisdom is the integrative capacity to apply financial knowledge, attitudes, and behaviors through context-sensitive judgment, experiential learning, and adaptive reasoning in ways that produce effective financial decisions under real-world conditions. Building on insights from behavioral decision theory, bounded rationality, ecological rationality, and practice-based perspectives, the paper positions financial wisdom as the critical mechanism linking financial literacy to micro-business performance. The framework contributes to theory by challenging cognition-centric views of financial capability and by offering a theoretically grounded explanation for persistent empirical inconsistencies in the financial literacy–performance relationship. Contextual factors are theorised as a four-dimensional moderating construct; encompassing resource constraints, institutional voids and market informality, socio-cultural norms and embeddedness, and environmental volatility — that shapes both the development of financial wisdom and its translation into performance outcomes. From a practitioner perspective, the framework reframes financial capability development by emphasising decision-making competence over knowledge acquisition alone. The paper concludes by outlining

a set of propositions and a research agenda for empirically examining financial wisdom and its implications for improving micro-business outcomes in resource-constrained environments. The paper argues that if financial capability development is to produce lasting impact in emerging markets, the cultivated wisdom of the practitioner must be placed at the centre of both theory and intervention design.

Keywords: *Contextual Factors, Decision-centric, Emerging Markets, Financial Capability, Financial Literacy, Financial Wisdom, Framework, Micro-Business Performance, Engaged Scholarship*

INTRODUCTION

Consider Abena, a fabric trader operating in the Makola Market in Accra, Ghana. She has completed a government-sponsored financial literacy program, can accurately calculate profit margins, understands the principle of separating business and personal finances, and knows that reinvesting retained earnings drives business growth. By every standard measure of financial literacy, Abena is capable. Yet her business has remained stagnant for three years. When a trusted supplier offers her a short-term bulk-purchase opportunity that her cash flow analysis suggests is viable, she hesitates — uncertain how to weigh the opportunity against the informal credit obligations she holds within her susu group, the school fees due next month for her sister's children, and the unpredictable payment behaviour of her three largest customers. The decision is not one that any financial literacy curriculum has prepared her for. It demands something more and different than knowledge. It demands wisdom.

Abena's situation is not exceptional. It is, in one form or another, the daily financial reality of the estimated 400 million micro-entrepreneurs operating across emerging markets worldwide (IFC, 2010). Despite decades of investment in financial literacy programs by governments, development institutions, and international organisations — programs premised on the assumption that better knowledge produces better decisions and better outcomes; the performance of micro-enterprises in emerging markets remains persistently weak, uneven, and difficult to explain through knowledge-based frameworks alone (Lusardi & Mitchell, 2014; Fernandes, Lynch, & Netemeyer, 2014). Something is missing from the theory. This paper proposes that what is missing is wisdom.

Micro-businesses constitute the backbone of many emerging economies, contributing significantly to employment generation, income distribution, and economic resilience. Despite

their importance, a persistent challenge remains: a high rate of business failure and stagnation, often attributed to poor financial decision-making (Beck, Demirgüç-Kunt, & Maksimovic, 2005; Ayyagari, Demirgüç-Kunt, & Maksimovic, 2011). In response, governments, development institutions, and policymakers have invested heavily in financial literacy initiatives aimed at improving the financial knowledge and skills of entrepreneurs. The underlying assumption is straightforward — better financial knowledge should translate into better financial decisions and, ultimately, improved business performance (Lusardi & Mitchell, 2014).

However, empirical evidence increasingly challenges this assumption. Studies have reported weak, inconsistent, or even non-significant relationships between financial literacy and business performance, particularly in micro and small enterprises operating in resource-constrained environments (Fernandes, Lynch, & Netemeyer, 2014; Drexler, Fischer, & Schoar, 2014). These inconsistencies suggest that the prevailing cognition-based view of financial capability may be insufficient to explain how entrepreneurs make financial decisions in practice. In many real-world contexts, decision-making is shaped not only by knowledge but also by uncertainty, experience, social influences, and institutional constraints (Simon, 1955; Kahneman & Tversky, 1979).

This paper argues that the limitations of existing approaches stem from an overemphasis on financial literacy as a primary driver of outcomes, while under-theorising the mechanisms through which knowledge is translated into action. While prior research has extended the concept of financial literacy into broader notions of financial capability, emphasising the application of knowledge and behavior (Atkinson & Messy, 2012); these perspectives still fall short in capturing the context-sensitive judgment and adaptive reasoning required in complex and uncertain

environments. As a result, a critical gap remains in understanding how micro-entrepreneurs navigate financial decisions in practice.

To address this gap, this paper introduces financial wisdom — the capacity to decide well under conditions of uncertainty, constraint, and complexity, where knowledge is necessary but never sufficient. More formally, financial wisdom is conceptualised as the integrative capacity to apply financial knowledge, attitudes, and behaviors through context-sensitive judgment, experiential learning, and adaptive reasoning. By shifting analytical focus from what micro-entrepreneurs know to how they decide and how well — this paper reconceptualises the financial literacy–performance relationship and offers a more complete and more realistic explanation of micro-business outcomes.

The significance of this contribution is twofold. Theoretically, the paper advances the literature by proposing a new construct that addresses persistent inconsistencies in prior research and extends existing frameworks of financial capability. Practically, it offers a reframing of financial education and intervention strategies, suggesting that improving outcomes requires not only knowledge acquisition but also the development of decision-making competence tailored to real-world conditions. This aligns closely with the principles of engaged management scholarship, which emphasise the integration of rigorous theory with actionable insights for practice.

This paper is positioned at the intersection of rigorous theoretical development and practical relevance — the defining mandate of engaged management scholarship. The theme of the 2026 Engaged Management Scholarship Conference, "Bright Ideas, Lasting Impact," captures precisely the challenge that this paper addresses. Financial literacy programs represent, without question, a bright idea: the intuition that knowledge empowers better decisions is intellectually sound and motivationally compelling. Yet the empirical record suggests that this bright idea has

not consistently produced lasting impact — at least not in the form of improved micro-business performance in the complex, uncertain, and socially embedded environments of emerging markets. The concept of financial wisdom is offered as a theoretical response to this gap: not a rejection of the financial literacy agenda, but a reconceptualisation of it — one that moves the conversation from knowledge acquisition toward the cultivation of judgment, experience, and contextual sensitivity. If the goal of engaged scholarship is to generate ideas that endure and to produce knowledge that shapes practice beyond the academy, then the shift from financial literacy to financial wisdom represents precisely the kind of theoretically grounded, practically consequential reframing that this conference, and this field, needs. In developing this framework, the paper contributes to the broader mission of scholar-practitioners: not merely to understand why micro-entrepreneurs make the decisions they make, but to build the conceptual foundations that will help them make better ones.

The remainder of the paper is structured as follows. The next section reviews the existing literature on financial literacy and financial capability, highlighting their contributions and limitations. This is followed by the development of the conceptual framework, where financial wisdom is introduced and its relationships with key constructs are theorised through a set of propositions. The paper then discusses the implications of the framework for theory and practice, outlines its limitations, and concludes with directions for future research.

BACKGROUND / LITERATURE REVIEW

Financial Literacy: Foundations and Limitations

Financial literacy has emerged as a central construct in both academic research and policy discourse, broadly defined as the ability to understand and use financial concepts in decision-making (Lusardi & Mitchell, 2014). It encompasses knowledge of financial principles such as interest rates, inflation, risk diversification, and basic financial products. Within the context of micro-businesses, financial literacy is often assumed to enhance entrepreneurs' capacity to manage cash flows, make investment decisions, and improve firm performance.

This perspective has driven widespread policy interventions, with governments and development agencies investing heavily in financial education programs aimed at improving knowledge and skills (OECD, 2013). The underlying assumption is rooted in human capital theory — that increasing individuals' knowledge base leads to improved economic outcomes (Becker, 1964). However, a growing body of empirical evidence challenges this assumption. Meta-analyses and experimental studies suggest that financial literacy interventions often produce limited and short-lived effects on behavior and performance (Fernandes, Lynch, & Netemeyer, 2014). Similarly, studies in developing and emerging market contexts, (summarized in table 3), report weak or inconsistent relationships between financial literacy and firm outcomes (Drexler, Fischer, & Schoar, 2014; Grohmann, Klühs, & Menkhoff, 2018).

One key limitation of the financial literacy construct is its cognitive bias — it prioritises what individuals know, while underemphasising how they apply that knowledge in real-world contexts. This limitation becomes particularly salient in environments characterised by uncertainty, informality, and resource constraints, where decision-making extends beyond rational

calculation (Simon, 1955). As such, financial literacy provides an important but incomplete explanation of financial behavior and outcomes.

Financial Capability: Broadening the Lens

In response to the limitations of financial literacy, scholars and policymakers have advanced the concept of financial capability, which extends beyond knowledge to include the ability to apply financial skills and behaviors in managing resources effectively (Atkinson & Messy, 2012). Financial capability incorporates elements such as financial planning, budgeting, saving behavior, and the use of financial services, reflecting a more action-oriented perspective.

This shift represents an important theoretical progression, moving from a purely cognitive construct to one that integrates behavior and application. Financial capability frameworks recognise that knowledge alone is insufficient and that behavioral factors play a critical role in shaping financial outcomes (Sherraden, 2013). Despite this advancement, financial capability remains limited in its explanatory power. It continues to assume a relatively linear and rational relationship between knowledge, behavior, and outcomes, overlooking the complexities of decision-making under uncertainty. It does not fully account for the contextual and experiential dimensions of financial decision-making, particularly in informal and resource-constrained environments. While it incorporates behavior, it often treats behavior as an outcome of capability rather than examining the underlying judgment processes that shape decision-making (Xiao & O'Neill, 2018).

Toward Financial Wisdom: Integrating Judgment, Context, and Experience

To address the limitations of existing constructs, this paper introduces financial wisdom as a higher-order concept that captures the integrative and judgment-based nature of financial decision-making. At its simplest and most memorable formulation: financial wisdom is the

capacity to decide well under conditions of uncertainty, constraint, and complexity — where knowledge alone is necessary but never sufficient.

This formulation foregrounds decision quality rather than knowledge quantity, conditions rather than content, and sufficiency rather than mere possession. It captures in a single sentence what the financial literacy literature has struggled to explain across decades of empirical investigation: that the gap between knowing and doing, between literacy and performance, is not a knowledge gap — it is a wisdom gap.

The conceptualisation of financial wisdom draws on several theoretical foundations. Bounded rationality (Simon, 1955) highlights that individuals operate under cognitive and informational constraints, relying on heuristics and satisficing rather than optimisation. Behavioral decision theory (Kahneman & Tversky, 1979) demonstrates that decision-making is influenced by biases, framing effects, and risk perceptions. Ecological rationality (Gigerenzen & Gaissmaier, 2011) demonstrates that heuristics can be well-adapted to specific environmental structures, rehabilitating adaptive decision strategies as legitimate responses to complex environments. Practice-based perspectives emphasise that knowledge is enacted through experience and situated within specific social and institutional contexts (Orlikowski, 2002; Lave & Wenger, 1991).

Situating Financial Wisdom Within the Wisdom Literature: Phronesis, Practical Intelligence, and Entrepreneurial Judgment

The introduction of financial wisdom as a theoretical construct necessitates explicit engagement with the broader wisdom literature. Wisdom, as a scholarly concept, has a rich and multi-disciplinary intellectual history spanning philosophy, psychology, and organizational studies.

The oldest and most philosophically robust conception of practical wisdom is found in Aristotle's *Nicomachean Ethics*, where *phronesis* — often translated as practical wisdom or prudence — is defined as the intellectual virtue that enables an individual to discern the right course of action in particular circumstances (Aristotle, trans. Irwin, 1985). Unlike *episteme* (theoretical knowledge) or *techne* (technical skill), *phronesis* is irreducibly situated: it cannot be reduced to the application of universal rules but must respond to the contingencies of specific situations (Nussbaum, 1990; Flyvbjerg, 2001).

Financial wisdom departs from *phronesis* in three critical respects. First, *phronesis* is inherently normative and teleological — oriented toward the good life (*eudaimonia*) and encompassing moral dimensions of deliberation. Financial wisdom is primarily an instrumental and domain-specific construct concerned with effective navigation of financial decisions within micro-business management. Second, *phronesis* is tied to moral development over a lifetime. Financial wisdom is theorised as a context-bound and developable capacity that can be cultivated through targeted interventions, mentorship, and practice-based learning. Third, *phronesis* was conceived as a universal human virtue. Financial wisdom is deliberately domain-specific, enabling precise operationalisation, measurement, and empirical examination.

Within empirical psychology, Sternberg's (1998) Balance Theory of Wisdom defines wisdom as the application of tacit knowledge and values toward the achievement of a common good by balancing intrapersonal, interpersonal, and extrapersonal interests. The Berlin Wisdom Paradigm (Baltes & Staudinger, 2000; Baltes & Smith, 2008) conceptualises wisdom as a meta-heuristic — an expert knowledge system in the fundamental pragmatics of life, involving exceptional insight, good judgment, and advice under conditions of uncertainty. Financial wisdom

departs from both paradigms by being domain-specific and by treating wisdom as a developable capacity accessible to ordinary entrepreneurs rather than a rare elite achievement.

Knight's (1921) seminal distinction between risk and uncertainty grounds the entrepreneurial judgment tradition, which Foss and Klein (2012) extend into a theory of judgment as the exercise of asset ownership under true uncertainty. This tradition is particularly germane because micro-entrepreneurs in emerging markets operate precisely in the conditions Knight described.

Situating Financial Wisdom Within the Entrepreneurial Decision-Making Literature

Financial wisdom in micro-business contexts is fundamentally an entrepreneurial decision-making construct. Shane and Venkataraman's (2000) opportunity-based framework defines entrepreneurship as the examination of how opportunities to create future goods and services are discovered, evaluated, and exploited — a process that requires exactly the kind of judgment under uncertainty that financial wisdom theorises. Financial literacy provides the knowledge substrate; financial wisdom provides the judgment capacity through which opportunities are recognised and acted upon effectively.

Sarasvathy's (2001) effectuation theory is perhaps the most directly relevant entrepreneurial decision-making framework. Causal reasoning — the logic underlying most financial literacy frameworks — begins with a predetermined goal and identifies optimal means. Effectual reasoning — the logic characterising experienced micro-entrepreneurs — begins with available means and constructs viable strategies from what is achievable. Financial wisdom represents the individual-level capacity to deploy effectual reasoning in financial decision contexts: to work adaptively with available resources, leverage social networks and informal

financial instruments, and construct contextually appropriate financial strategies. The cognitive and behavioral capacity that enables this is not financial literacy — it is financial wisdom.

Shepherd, Williams, and Patzelt's (2015) comprehensive review of entrepreneurial decision-making identifies cognitive frameworks — the mental models through which entrepreneurs interpret uncertain environments — as central to understanding why similar levels of knowledge produce different decision outcomes. Their treatment of entrepreneurial learning demonstrates that the most consequential development occurs through reflective processing of direct experience, particularly involving unexpected outcomes and novel challenges (Cope, 2011). This maps directly onto the experiential learning dimension of financial wisdom.

Foss and Klein (2012) ground the performance effects of entrepreneurial judgment in a rigorous economic logic: financially wise entrepreneurs create value not because they possess superior knowledge but because they exercise superior judgment in deploying financial assets under uncertainty. This provides the economic logic underpinning Proposition 2 of this framework.

Theoretical Foundations of Financial Wisdom: From Classical Rationality to Contemporary Perspectives

The conceptualisation of financial wisdom requires a robust multi-theoretic foundation. Four interconnected theoretical pillars jointly constitute this foundation.

Bounded rationality (Simon, 1955; March, 1978; Cyert & March, 1963) establishes that real-world decision-makers satisfice rather than optimise, relying on simplified decision rules and experiential learning. March's (1978) distinction between substantive and procedural rationality is foundational: financial wisdom shifts the evaluative lens from whether a decision was objectively optimal to whether the decision process was contextually appropriate. Dane and Pratt (2007) demonstrate that expertise enables intuitive pattern recognition — fast, experience-based cognition

that operates alongside analytical reasoning in complex environments — a capacity that maps onto the adaptive reasoning component of financial wisdom.

Behavioral decision theory (Kahneman & Tversky, 1979; Kahneman, 2011; Thaler & Sunstein, 2008; Mullainathan & Shafir, 2013) identifies the cognitive biases that financial wisdom must navigate. Financial wisdom is theorised as the metacognitive capacity to engage deliberative System 2 reasoning when stakes are high, while leveraging System 1 pattern recognition when contextual familiarity permits. Mullainathan and Shafir's (2013) scarcity psychology demonstrates that resource constraint imposes a cognitive tax, making the adaptive, heuristic-based dimensions of wisdom even more critical in emerging market contexts.

Ecological rationality (Gigerenzen & Gaissmaier, 2011; Gigerenzen, 2008) demonstrates that heuristics are often well-adapted to specific informational structures of real-world environments. When a micro-entrepreneur relies on social reputation rather than formal credit scores to evaluate a business partner, this is not a failure of financial literacy — it may represent an ecologically rational response to the specific institutional structure of their environment. Financial wisdom encompasses the capacity to identify which decision strategies — formal analytical methods or informal heuristics — are most appropriate for a given context.

Entrepreneurial cognition and practice-based learning (Sarasvathy, 2001; Mitchell et al., 2002; Orlikowski, 2002; Nonaka & Toyama, 2007; Crossan, Lane, & White, 1999) establish that knowledge becomes actionable only through participation in communities of practice and active engagement with real decision challenges. Crossan et al.'s (1999) framework — encompassing intuiting, interpreting, integrating, and institutionalising — mirrors the developmental trajectory through which financial literacy is transformed into financial wisdom over time.

Theoretical Tensions and Research Gap

The review of existing literature reveals a clear theoretical progression — from financial literacy to financial capability — yet also exposes persistent gaps. While financial literacy emphasises knowledge and financial capability incorporates behavior, both constructs remain rooted in cognition-driven and linear models of decision-making. They insufficiently account for the dynamic, uncertain, and context-dependent nature of real-world financial decisions. This creates a fundamental tension: theory assumes rational, knowledge-driven decision-making, while practice reveals adaptive, context-driven behavior.

As a result, existing frameworks struggle to explain why financially literate individuals may still make poor decisions; why similar levels of capability produce different outcomes; and why empirical findings on financial literacy and performance remain inconsistent. These unresolved issues point to a missing theoretical link — one that captures the judgment processes through which knowledge and behavior are translated into outcomes. This paper addresses this gap by proposing financial wisdom as that missing link.

THEORETICAL / CONCEPTUAL DEVELOPMENT

Overview of the Conceptual Framework

Building on the limitations identified in prior literature, this paper advances a conceptual framework that repositions the relationship between financial literacy and micro-business performance by introducing financial wisdom as a central explanatory mechanism. The framework departs from linear, cognition-driven models and instead emphasises the process through which knowledge is translated into effective action under real-world conditions.

At its core, the model proposes that while financial literacy provides the foundational knowledge base, it does not directly or consistently translate into improved business performance. Instead, its influence is mediated by financial wisdom — an integrative construct that captures the capacity for context-sensitive judgment, experiential learning, and adaptive reasoning. Furthermore, the framework incorporates contextual factors as a four-dimensional boundary condition that shapes the strength and direction of these relationships.

In essence, the model can be summarised as:

Financial Literacy → Financial Wisdom → Micro-Business Performance
(Conditioned by Four-Dimensional Contextual Factors)

This reframing shifts the analytical focus from what entrepreneurs know to how entrepreneurs decide and act in context. See Figure 1 for a visual representation of the complete conceptual framework.

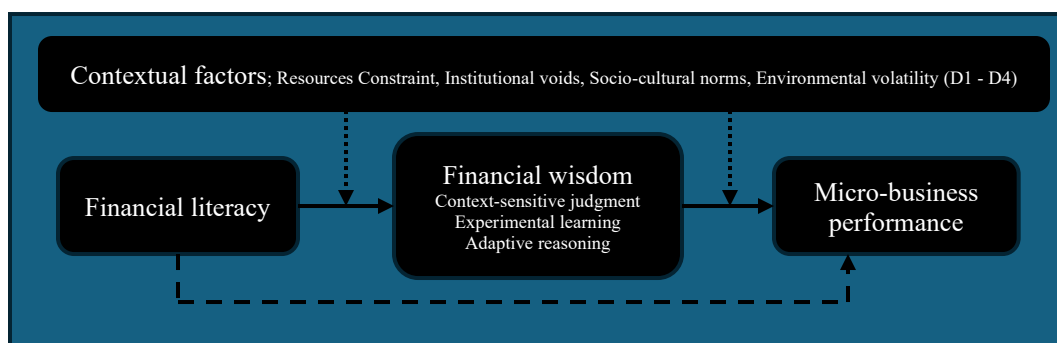


Figure 1. Conceptual Framework: Financial Literacy, Financial Wisdom, and Micro-Business Performance in Emerging Markets. Solid arrows indicate positive relationships; dashed arrows indicate weak or non-significant paths; dotted arrows indicate moderation paths. D1–D4 represent the four dimensions of the contextual moderating construct. P1–P6 correspond to the propositions developed in this paper.

Conceptualisation of Key Constructs

Financial Literacy

Financial literacy is conceptualised as the cognitive understanding of financial concepts, including knowledge of financial products, budgeting, investment principles, and risk management (Lusardi & Mitchell, 2014). It represents a necessary but insufficient condition for effective financial decision-making, particularly in complex and uncertain environments.

Financial Wisdom

At its simplest and most memorable formulation: financial wisdom is the capacity to decide well under conditions of uncertainty, constraint, and complexity — where knowledge alone is necessary but never sufficient.

This formulation is intentionally spare. It foregrounds decision quality rather than knowledge quantity, conditions rather than content, and sufficiency rather than mere possession. It captures in a single sentence what the financial literacy literature has struggled to explain across decades of empirical investigation: that the gap between knowing and doing, between literacy and performance, is not a knowledge gap — it is a wisdom gap.

The formal scholarly definition builds from this foundation: financial wisdom is the integrative capacity to apply financial knowledge, attitudes, and behaviors through context-sensitive judgment, experiential learning, and adaptive reasoning in ways that produce effective financial decisions under real-world conditions of uncertainty, resource constraint, and institutional complexity. This construct extends beyond both financial literacy — which

emphasises what individuals know — and financial capability — which emphasises what individuals do — by theorising the quality of the judgment process through which knowledge and behavior are integrated into contextually appropriate decisions. Financial wisdom is, in this sense, the construct that occupies the explanatory space between financial literacy and financial performance — the missing mechanism that prior frameworks have failed to theorise.

Micro-Business Performance

Micro-business performance refers to the economic and operational outcomes of small enterprises, including profitability, growth, sustainability, and survival (Ayyagari et al., 2011). Within this framework, performance is treated as the ultimate outcome of financial decision-making processes.

Contextual Factors — A Four-Dimensional Moderating Construct

Contextual factors represent the environmental and institutional conditions within which financial decisions are made. Rather than treating context as a monolithic background variable, this framework theorises contextual factors as comprising four distinct but interrelated dimensions, each of which exerts a specific moderating influence on the financial wisdom framework: (1) resource constraints; (2) institutional voids and market informality; (3) socio-cultural norms and embeddedness; and (4) environmental volatility and uncertainty. Each dimension is theorised in full in the propositions section below.

THEORETICAL RELATIONSHIPS AND PROPOSITIONS

The propositions developed in this section represent the theoretical core of the framework. Unlike hypotheses, which are empirically testable predictions derived from established theory, propositions in conceptual papers are theoretically reasoned arguments that specify the nature, direction, and boundary conditions of relationships among constructs prior to empirical examination (Whetten, 1989; Dubin, 1978). Each proposition is developed through a sustained theoretical argument that draws on the multi-theoretic foundation established in the preceding sections.

Proposition 1: Financial Literacy and the Development of Financial Wisdom

Financial literacy provides the declarative and procedural knowledge inputs that expand the cognitive resources available for financial decision-making. Human capital theory establishes that knowledge endowments improve the quality of information processing underlying choices (Becker, 1964). In the financial domain, this means that entrepreneurs with higher financial literacy have access to a richer set of conceptual tools for recognising implications, evaluating alternatives, and interpreting financial situations.

However, the relationship between financial literacy and the development of wisdom is theoretically more complex. Bounded rationality theory suggests that the mere acquisition of financial knowledge is insufficient to improve decision quality without the development of the cognitive structures through which that knowledge is interpreted and applied (Simon, 1955; March, 1978). Dane and Pratt (2007) demonstrate that expert intuition — a component of wise judgment — develops through the accumulation and pattern-recognition processing of domain-specific knowledge over repeated encounters with similar decision challenges. Practice-based perspectives reinforce that knowledge becomes actionable only through active engagement with

real financial challenges in specific contexts (Lave & Wenger, 1991; Crossan, Lane, & White, 1999). Financial literacy is therefore a necessary but insufficient condition for financial wisdom, and its contribution to wisdom development is moderated by experiential, contextual, and cognitive factors.

Proposition 1

Financial literacy is positively associated with the development of financial wisdom, such that higher levels of financial knowledge provide the cognitive foundation from which context-sensitive judgment, experiential learning, and adaptive reasoning capacities are developed.

Proposition 2: Financial Wisdom and Micro-Business Performance

Financial wisdom operates on performance through three distinct but interrelated mechanisms. The first is decision quality under uncertainty. Under conditions of deep uncertainty, incomplete information, and time pressure, the quality of outcomes depends not on access to optimal information but on the capacity to form reasonable judgments from available evidence (Knight, 1921; Foss & Klein, 2012). Gigerenzen and Gaissmaier's (2011) research demonstrates that decision-makers deploying contextually appropriate heuristics — a manifestation of adaptive financial wisdom — frequently outperform those attempting exhaustive analytical deliberation in complex, uncertain environments.

The second mechanism is adaptive resource management. Financial wisdom — specifically its dimensions of experiential learning and adaptive reasoning — enables entrepreneurs to manage resource constraints more effectively by developing flexible financial practices and adapting resource allocation strategies in response to changing conditions. This is consistent with dynamic capabilities theory, which emphasises the capacity to sense, seize, and reconfigure resources as a key driver of sustained firm performance (Teece, Pisano, & Shuen,

1997; Eisenhardt & Martin, 2000). The third mechanism is behavioral self-regulation. Financial wisdom, by incorporating the metacognitive capacity to recognise and compensate for cognitive biases in specific decision contexts, enables entrepreneurs to make more consistent, long-term-oriented financial decisions (Kahneman, 2011; Thaler, 1999).

Proposition 2

Financial wisdom is positively associated with micro-business performance, such that higher levels of context-sensitive financial judgment, experiential learning, and adaptive reasoning lead to more effective resource management, better decision quality under uncertainty, and improved firm-level outcomes.

Proposition 3: The Weakening of the Direct Financial Literacy–Performance Relationship

Fernandes, Lynch, and Netemeyer's (2014) comprehensive meta-analysis found that financial literacy accounts for only a small fraction of the variance in financial behaviors, and that its effects decay rapidly following financial education interventions. Several theoretical mechanisms explain this weakness. First, bounded rationality establishes that the translation of declarative knowledge into effective action requires cognitive structures not automatically generated by knowledge acquisition (Simon, 1955; Dane & Pratt, 2007). Second, behavioral decision theory demonstrates that cognitive biases, emotional responses, and situational pressures systematically disrupt the knowledge–behavior relationship (Kahneman & Tversky, 1979; Mullainathan & Shafir, 2013). Third, and most fundamentally, the direct literacy–performance relationship is theoretically expected to be weak precisely because it omits the critical intervening process — financial wisdom — through which knowledge is transformed into effective action.

Proposition 3

The direct relationship between financial literacy and micro-business performance is weak and becomes non-significant when financial wisdom is introduced as a mediating mechanism, because financial literacy's influence on performance operates primarily through the development and deployment of financial wisdom rather than through direct knowledge application.

Proposition 4: The Mediating Role of Financial Wisdom — A Step-by-Step Causal Architecture

Proposition 4 is the theoretical heart of this paper. The mediation argument rests on a four-stage causal chain. Each stage is theoretically necessary — the removal of any single stage collapses the argument — and each is grounded in a distinct and well-established theoretical tradition. The chain can be stated simply before each step is elaborated:

Financial literacy provides the inputs → Financial wisdom processes those inputs through judgment → Judgment produces contextually appropriate financial decisions → Contextually appropriate decisions drive micro-business performance.

Stage 1: Financial literacy provides the cognitive raw material of financial decision-making. Entrepreneurs with higher financial literacy have access to a richer set of conceptual tools. However, the quality of the raw material does not determine the quality of the output. A micro-entrepreneur with high financial literacy and poor financial wisdom produces inferior financial decisions. The inputs matter, but they are not sufficient. What matters equally — what the literature has failed to theorise until now — is the process through which inputs are transformed into decisions.

Stage 2: Financial wisdom processes those inputs through three analytically distinct but practically intertwined operations. Contextual interpretation: the financially wise entrepreneur applies financial knowledge in light of the specific conditions of their environment — informal

institutional structures, social obligations, resource constraints, and market volatility (Gigerenzen & Gaissmaier, 2011). Experiential pattern recognition: accumulated experience populates cognitive schemas with relevant comparators, enabling financially wise entrepreneurs to recognise meaningful patterns in complex financial situations (Dane & Pratt, 2007). Metacognitive bias regulation: the financially wise entrepreneur exercises deliberative System 2 reasoning when the stakes and complexity of a financial decision warrant it, rather than defaulting to fast, bias-prone System 1 heuristics under pressure (Kahneman, 2011). Together, these three operations constitute the judgment mechanism through which financial literacy is transformed from inert knowledge into activated, contextually appropriate decision guidance. Without this mechanism, financial literacy remains what Pfeffer and Sutton (2000) call knowing without doing: theoretically available but practically inert.

Stage 3: The output of the wisdom processing mechanism is not performance directly — it is decision quality. Financial wisdom produces better financial decisions: more accurately calibrated to the specific conditions of the entrepreneur's environment, more consistent with long-term performance objectives, more resilient to cognitive biases, and more adaptive in response to environmental feedback. Sarasvathy's (2001) effectuation framework is illuminating here: financially wise entrepreneurs produce effectually superior decisions — decisions that work with available means, leverage social capital, and adapt to environmental contingencies rather than pursuing predetermined goals rigidly.

Stage 4: Decision quality connects to firm-level performance through three mechanisms. Resource allocation efficiency: financially wise decision-making directly enhances the productive efficiency with which micro-enterprise resources are employed (Penrose, 1959; Barney, 1991). Adaptive resilience under adversity: financially wise entrepreneurs recognise financial distress

signals early and develop contingency responses proactively (Williams et al., 2017). Compounding decision advantage over time: financial wisdom, by consistently improving decision quality across the full range of financial choices that micro-entrepreneurs make, produces a compounding performance advantage that grows over time — wiser decisions today generate better resource positions tomorrow, expanding the option space for wiser decisions the day after.

Proposition 4

Financial wisdom fully mediates the relationship between financial literacy and micro-business performance, such that the effect of financial literacy on performance operates through the development of context-sensitive judgment, experiential learning, and adaptive reasoning capacities, rather than through direct knowledge application. The causal mechanism proceeds in four stages: financial literacy provides the cognitive inputs to financial decision-making; financial wisdom processes those inputs through contextual interpretation, experiential pattern recognition, and metacognitive regulation; this processing produces contextually appropriate financial decisions of higher quality; and these decisions drive micro-business performance through the mechanisms of resource allocation efficiency, adaptive resilience, and compounding decision advantage.

Contextual Factors as a Multidimensional Moderating Construct

Rather than treating context as a monolithic or undifferentiated environmental backdrop, this framework theorises contextual factors as comprising four distinct but interrelated dimensions, each exerting a specific and theoretically differentiable moderating influence on the financial wisdom framework. The four dimensions are theorised separately below, with refined propositions (5a–5d and 6a–6d) specifying the distinct moderating logic of each.

Dimension 1: Resource Constraints

Resource constraints refer to the limited availability of financial, physical, human, and informational resources within which micro-entrepreneurs operate (Beck et al., 2005; Ayyagari et al., 2011). Mullainathan and Shafir's (2013) scarcity psychology framework demonstrates that operating under resource scarcity imposes a cognitive tax that affects attention, deliberation, and

self-control — creating a paradox: the entrepreneurs who most need financial wisdom are simultaneously those whose cognitive resources are most severely constrained. Resource-based theory identifies financial wisdom as a meta-resource: a judgment capacity enabling entrepreneurs to extract greater value from limited resource endowments by improving the quality of resource allocation decisions (Barney, 1991; Penrose, 1959).

Proposition 5a

Resource constraints moderate the relationship between financial literacy and financial wisdom, such that the positive relationship is strengthened at moderate levels of resource constraint — where experiential learning demands are heightened — but may be attenuated at extreme constraint levels where cognitive scarcity tax impedes reflective wisdom development.

Proposition 6a

Resource constraints moderate the relationship between financial wisdom and micro-business performance, such that the positive performance effects of financial wisdom are amplified in resource-constrained environments, where the marginal returns to adaptive financial judgment are greatest.

Dimension 2: Institutional Voids and Market Informality

Institutional voids refer to the absence of well-functioning formal institutions, regulatory systems, contract enforcement mechanisms, and financial infrastructure that characterises many emerging economy contexts (Khanna & Palepu, 2010; Mair, Marti, & Ventresca, 2012). In contexts where formal institutions are weak or absent, informal institutions assume greater importance as primary governance mechanisms (North, 1990; Scott, 2001; Webb et al., 2009). Financial wisdom in high-void environments must incorporate not only formal financial knowledge but also informal institutional knowledge, enabling the recontextualisation of formal principles within the specific institutional structures of the market.

Proposition 5b

Institutional voids and market informality moderate the relationship between financial literacy and financial wisdom, such that the positive relationship is strengthened in high-void, high-informality environments, where the recontextualisation of formal financial knowledge within informal institutional frameworks demands more intensive wisdom development.

Proposition 6b

Institutional voids and market informality moderate the relationship between financial wisdom and micro-business performance, such that the positive performance effects of financial wisdom are amplified in environments characterised by greater institutional voids and market informality, where adaptive contextual judgment provides a stronger competitive advantage than formal financial knowledge.

Dimension 3: Socio-Cultural Norms and Embeddedness

Socio-cultural embeddedness refers to the cultural norms, social relationships, communal obligations, and network structures shaping financial behavior (Granovetter, 1985; Hofstede, 1980; Fafchamps, 2004). In collectivist cultural contexts prevalent across Sub-Saharan Africa, Southeast Asia, and Latin America, financial decisions are frequently subject to communal claims and social obligations that formal financial literacy frameworks do not adequately address (Banerjee & Duflo, 2007; Bourdieu, 1986). Sternberg's (1998) Balance Theory is particularly illuminating here: financial wisdom in socio-culturally embedded contexts requires the capacity to balance personal business optimisation against communal social obligation — to find strategies that partially satisfy both simultaneously.

In Ghana specifically, the susu system — a rotating savings and credit association that functions simultaneously as a financial instrument, a social contract, and a governance mechanism — exemplifies this embeddedness. An entrepreneur who participates in a susu is demonstrating financial wisdom: drawing on social capital as a financial resource in an environment where formal credit is inaccessible or prohibitively expensive (Abor & Quartey, 2010; Agyei, 2018).

Proposition 5c

Socio-cultural norms and embeddedness moderate the relationship between financial literacy and financial wisdom, such that the positive relationship is strengthened in environments characterised by high social embeddedness and communal obligation norms, where effective wisdom development requires the integration of formal financial knowledge with contextually appropriate socio-cultural judgment.

Proposition 6c

Socio-cultural norms and embeddedness moderate the relationship between financial wisdom and micro-business performance, such that financially wise entrepreneurs who successfully navigate the tensions between formal financial optimisation and informal social obligations achieve superior performance outcomes compared to those who apply formal financial knowledge without socio-cultural contextual sensitivity.

Dimension 4: Environmental Volatility and Uncertainty

Environmental volatility refers to the frequency, magnitude, and unpredictability of changes in market conditions — including price fluctuations, demand variability, exchange rate movements, and macroeconomic instability — that affect micro-enterprise financial performance (Dess & Beard, 1984; Milliken, 1987). In emerging market contexts, volatility is frequently high and structurally embedded, creating conditions of true uncertainty in which probability distributions of future outcomes are not merely unknown but unknowable (Knight, 1921). Dynamic capabilities theory establishes that in volatile environments, the capacity to sense, seize, and reconfigure resources is the primary source of sustained competitive advantage (Teece et al., 1997). Ecological rationality theory demonstrates that the performance advantage of adaptive, heuristics-based decision-making is greatest precisely in environments characterised by high noise and unpredictability (Gigerenzen & Gaissmaier, 2011).

Proposition 5d

Environmental volatility and uncertainty moderate the relationship between financial literacy and financial wisdom, such that the positive relationship is strengthened in highly volatile environments, where the frequency and novelty of financial decision challenges accelerate the experiential learning and adaptive reasoning processes through which financial literacy is transformed into financial wisdom.

Proposition 6d

Environmental volatility and uncertainty moderate the relationship between financial wisdom and micro-business performance, such that the positive performance effects of financial wisdom are amplified in highly volatile and uncertain environments, where adaptive judgment and contextually sensitive decision-making generate greater performance premiums than formal financial knowledge alone.

Summary of Propositions

Table 3: Summary of Propositions — Theoretical Foundations, Relationships, and Empirical Implications

Prop.	Relationship	Direction	Key Theoretical Anchors	Nature
P1	Financial Literacy → Financial Wisdom	Positive	Simon, 1955; Becker, 1964; Dane & Pratt, 2007	Direct
P2	Financial Wisdom → Performance	Positive	Gigerenzen, 2011; Teece et al., 1997; Kahneman, 2011	Direct
P3	Financial Literacy → Performance (direct)	Weak / n.s.	Fernandes et al., 2014; Mullainathan & Shafir, 2013	Direct
P4	Literacy → Wisdom → Performance	Full mediation	Sarasvathy, 2001; Pfeffer & Sutton, 2000	Mediated
P5a–d	Context moderates literacy → wisdom	Strengthens	Khanna & Palepu, 2010; Granovetter, 1985	Moderated
P6a–d	Context moderates wisdom → performance	Amplifies	Teece et al., 1997; Gigerenzen, 2011	Moderated

DISCUSSION

Reinterpreting the Financial Literacy–Performance Relationship

The conceptual framework developed in this paper offers a fundamental reinterpretation of the widely studied relationship between financial literacy and micro-business performance. Rather than viewing financial literacy as a direct and sufficient driver of performance, this paper positions it as a foundational but incomplete input whose effects are contingent on the presence of financial wisdom. This reframing helps explain a long-standing empirical puzzle — namely, why increased financial knowledge does not consistently translate into improved financial behavior or business outcomes (Fernandes, Lynch, & Netemeyer, 2014). By introducing financial wisdom as a mediating mechanism, the framework shifts the analytical focus from knowledge acquisition to decision quality under real-world conditions.

Financial decision-making in micro-business contexts is rarely linear or purely rational. It involves navigating uncertainty, balancing competing priorities, and adapting to dynamic environments. Financial wisdom captures this complexity by emphasising judgment, experience, and contextual awareness as central to effective decision-making. This perspective recognises that the gap between knowing and doing is not a deficit to be filled by more knowledge — it is a wisdom gap to be addressed through the cultivation of judgment.

Resolving Theoretical Tensions in Existing Literature

The proposed framework addresses the key tension in the literature between normative models of decision-making and observed behavior in practice. Traditional financial literacy and capability frameworks are largely grounded in rational choice assumptions. However, extensive research in behavioral economics has demonstrated that real-world decision-making deviates

systematically from these assumptions due to cognitive limitations and contextual influences (Kahneman & Tversky, 1979; Simon, 1955; Mullainathan & Shafir, 2013).

By incorporating financial wisdom, this paper bridges this gap, integrating insights from bounded rationality, behavioral decision theory, and ecological rationality with practice-based perspectives. In doing so, it moves beyond static and linear models toward a dynamic and process-oriented understanding of financial behavior. Furthermore, the framework addresses inconsistencies in empirical findings by identifying the absence of a mediating mechanism in prior models as the fundamental explanatory gap.

Advancing Engaged Management Scholarship

The framework contributes to the broader agenda of engaged management scholarship by explicitly linking theoretical development with practical relevance. Unlike traditional constructs that prioritise abstract knowledge or generalised behavior, financial wisdom reflects the situated and experiential nature of decision-making. It acknowledges that entrepreneurs often rely on informal learning, social networks, and adaptive strategies to navigate financial challenges — capacities that are particularly consequential in emerging markets, where formal institutions may be weak and standardised financial education may have limited impact (Mair et al., 2012; Bruton et al., 2010).

Comparison with Existing Frameworks

Compared to financial literacy models, the framework moves beyond a narrow focus on cognitive knowledge to incorporate the processes through which knowledge is interpreted and applied. In relation to financial capability frameworks, the model offers a deeper level of analysis: although financial capability incorporates behavior, it assumes a relatively straightforward relationship between knowledge and behavior (Atkinson & Messy, 2012; Sherraden, 2013).

Financial wisdom explicitly accounts for the judgment processes underlying behavior. The framework also introduces a stronger emphasis on contextual embeddedness, recognising that financial decisions are shaped by resource constraints, institutional voids, socio-cultural norms, and environmental volatility in ways that universalistic models overlook.

CONTRIBUTIONS

Theoretical Contributions

This paper makes five important contributions to the literature on financial decision-making, micro-business performance, and engaged scholarship.

First, it introduces financial wisdom as a novel theoretical construct. The primary contribution lies in conceptualising financial wisdom as a higher-order construct that extends beyond existing notions of financial literacy (Lusardi & Mitchell, 2014) and financial capability (Atkinson & Messy, 2012; Sherraden, 2013), incorporating judgment, context-sensitivity, and experiential learning into a unified framework.

Second, it resolves inconsistencies in the financial literacy–performance relationship. By positioning financial wisdom as the mechanism through which knowledge is translated into action, the framework provides a theoretically grounded explanation for the persistent empirical inconsistencies documented in the literature (Fernandes et al., 2014; Grohmann et al., 2018).

Third, it reconceptualises financial capability and extends existing frameworks. Financial wisdom is positioned as a complementary yet transformative construct that deepens and refines existing frameworks by theorising the judgment-based processes that both literacy and capability frameworks omit.

Fourth, it integrates multiple theoretical perspectives into a unified model. The framework synthesises insights from bounded rationality (Simon, 1955; March, 1978), behavioral decision theory (Kahneman & Tversky, 1979; Thaler & Sunstein, 2008), ecological rationality (Gigerenzen & Gaissmaier, 2011), entrepreneurial cognition (Sarasvathy, 2001; Shepherd et al., 2015), and practice-based learning (Orlikowski, 2002; Lave & Wenger, 1991) into a multi-dimensional view of financial decision processes.

Fifth, it advances theory in the context of emerging markets. By focusing on micro-businesses in emerging markets — and by engaging directly with the Ghanaian and Sub-Saharan African entrepreneurship literature (Abor & Quartey, 2010; Agyei, 2018; Quartey et al., 2017) — the paper contributes a more context-sensitive and globally relevant theory that extends the applicability of existing frameworks to under-researched contexts.

Practical and Managerial Contributions

Abena's situation — and the situation of the hundreds of millions of micro-entrepreneurs like her across emerging markets — is not simply a research puzzle. It is a policy failure, a development challenge, and a human cost, measured in businesses that stagnate, families that remain vulnerable, and economic potential that goes unrealised because the interventions designed to help have been built on an incomplete theory of how financial decisions are actually made. The conceptual framework advanced in this paper carries direct and significant implications for practitioners, policymakers, and development organisations who are ready to move beyond the limits of the financial literacy paradigm.

First, it reframes financial education and intervention design. Current financial literacy programs predominantly emphasise knowledge acquisition. This paper suggests that interventions should focus more explicitly on developing decision-making competence — including judgment, adaptability, and context-awareness — implying a shift toward more experiential, practice-based, and scenario-driven learning approaches.

Second, it provides a more realistic lens for understanding entrepreneur behavior. For practitioners working with micro-entrepreneurs, the concept of financial wisdom offers a more accurate framework for understanding how decisions are actually made — recognising the role of

contextual constraints, experience, and adaptive reasoning, leading to more empathetic and effective engagement strategies.

Third, it informs policy design in emerging markets. Policymakers should complement financial literacy programs with initiatives that enhance contextual decision-making capabilities, including experiential learning platforms, mentorship and peer-learning systems, and context-specific financial tools and advisory services.

Fourth, it supports more effective financial service delivery. Financial institutions serving micro-businesses can benefit from incorporating financial wisdom into engagement models by designing products that align with how entrepreneurs actually make decisions and by providing advisory services that go beyond information provision.

Fifth, it strengthens the practice relevance of engaged scholarship. Consistent with engaged management scholarship principles, this paper bridges theory and practice by offering insights that are both analytically rigorous and directly applicable, demonstrating how conceptual development can inform real-world interventions.

LIMITATIONS

While this paper advances a novel conceptual framework, several limitations define its scope and boundary conditions.

First, the conceptual nature of the study limits empirical validation. The arguments and propositions advanced here are not empirically tested. The relationships proposed should be interpreted as theoretically derived rather than empirically confirmed, necessitating further validation across contexts and methodologies.

Second, the construct of financial wisdom requires further operationalisation. Although this paper provides a clear conceptual definition, it does not develop a formal measurement scale or specify its dimensional structure in empirical terms (Churchill, 1979). Future work is needed to refine its components, develop reliable indicators, and establish discriminant validity relative to related constructs.

Third, the framework may face challenges of construct overlap. Despite efforts to clearly distinguish financial wisdom from existing constructs, there remains a potential for conceptual overlap, particularly with broader notions of financial capability. Future research will need to address this through rigorous construct validation and comparative analysis.

Fourth, contextual specificity may limit generalisability. The framework is developed with particular emphasis on micro-businesses in emerging market contexts. While this enhances the relevance and explanatory power of the model in such settings, it may limit direct applicability to more stable and structured environments.

Fifth, the model simplifies complex decision-making processes. Financial decisions are influenced by a wide range of factors — including psychological traits, social networks, and

external shocks — that are not exhaustively captured in the model. This simplification is necessary for theoretical clarity but represents a boundary condition of the framework.

FUTURE RESEARCH DIRECTIONS

Building on the conceptual framework and its identified limitations, this paper outlines seven promising avenues for future research.

First, empirical validation of the conceptual model is essential. Future studies should test the propositions advanced in this paper using quantitative, qualitative, or mixed-method approaches (Eisenhardt, 1989). Longitudinal designs would be particularly valuable in capturing the dynamic nature of financial wisdom development over time (Podsakoff et al., 2003).

Second, scale development and construct operationalisation are critical. A priority for future research is the development of a robust and validated measurement scale for financial wisdom (Churchill, 1979). This involves identifying underlying dimensions, establishing reliability and validity, and differentiating it from related constructs using exploratory and confirmatory factor analysis.

Third, qualitative and practice-based research can deepen understanding. Given the context-sensitive and experiential nature of financial wisdom, qualitative methods such as case studies, ethnography, and in-depth interviews are particularly well-suited to exploring how financial wisdom is developed and enacted in real-world settings (Eisenhardt, 1989; Cope, 2011).

Fourth, cross-context and comparative studies are needed. Future research should examine the applicability of the financial wisdom framework across different institutional, cultural, and economic contexts, including comparative studies between emerging and developed markets.

Fifth, intervention-based research can test practical applications. Experimental and quasi-experimental studies can assess whether training programs emphasising experiential learning,

scenario-based decision-making, and adaptive reasoning are more effective than traditional financial literacy programs.

Sixth, integration with related research domains offers further opportunities. The concept of financial wisdom can be extended and integrated with streams of research including entrepreneurial cognition, behavioral finance, and decision sciences (Shepherd et al., 2015; Mitchell et al., 2002).

Seventh, digital and technological influences warrant exploration. Future research should investigate how digital tools, fintech platforms, and data analytics influence the development and application of financial wisdom, and how technology interacts with human judgment in ways that either complement or substitute for wisdom.

CONCLUSION

This paper set out to address a persistent and important question in both research and practice: why does financial literacy, despite significant investment and emphasis, fail to consistently translate into improved micro-business performance? By critically examining the limitations of existing knowledge-based and behavior-oriented frameworks, the paper argued that the dominant focus on financial literacy and even its extension into financial capability remains insufficient to explain real-world financial decision-making.

In response, the paper introduced financial wisdom as a higher-order construct that captures the integrative, context-sensitive, and judgment-driven nature of financial decision-making. By shifting the analytical focus from what individuals know to how they make decisions under uncertainty, the proposed framework offers a more comprehensive and realistic explanation of micro-business outcomes. The conceptual model positions financial wisdom as the key mechanism through which financial literacy is translated into performance, while recognising the critical role of a four-dimensional contextual moderating construct; resource constraints, institutional voids, socio-cultural norms, and environmental volatility — in shaping this process.

The contributions of this paper lie not only in advancing theory but also in reframing practice. For researchers, it opens a new avenue for examining financial decision-making beyond cognition and behavior, toward judgment and adaptive reasoning. For practitioners and policymakers, it highlights the need to move beyond traditional financial education approaches toward interventions that develop decision-making competence in context. For the EMS community specifically, it represents the kind of scholar-practitioner bridge that the "Bright Ideas, Lasting Impact" mandate demands: a framework that is theoretically rigorous, contextually grounded, and directly actionable.

Ultimately, this paper calls for a paradigm shift in how financial capability is understood and developed. Abena's story, and the story of the hundreds of millions of micro-entrepreneurs like her — will not be changed by more knowledge alone. It will be changed when we build the theoretical and practical foundations that help her, and those who work alongside her, develop not just financial literacy but financial wisdom. If the goal is to achieve meaningful and lasting impact on micro-business performance, then the focus must extend beyond financial literacy to encompass the cultivation of financial wisdom. In doing so, this work contributes to the broader mission of engaged management scholarship — bridging rigorous theory with practical relevance to address complex real-world challenges.

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TABLES

Table 1: Financial Wisdom and Related Constructs — Key Distinctions

Construct	Domain	Core Emphasis	Orientation	Developability	Empirical Focus
Phronesis (Aristotle)	Universal / Life	Moral-practical virtue	Ethical / Teleological	Through lifelong virtue cultivation	Philosophical / Normative
Balance Theory of Wisdom (Sternberg, 1998)	Universal / Life	Tacit knowledge; balancing interests	Prosocial / Common good	Moderate — through experience	Psychological / Cognitive
Berlin Wisdom Paradigm (Baltes & Staudinger, 2000)	Universal / Life	Expert knowledge system; uncertainty management	Life meaning / Guidance	Low — rare elite capacity	Psychological / Developmental
Entrepreneurial Judgment (Knight, 1921; Foss & Klein, 2012)	Economic / Strategic	Decision under uncertainty; resource allocation	Instrumental / Economic	Low theorization	Economic / Organizational
Financial Wisdom (This Paper)	Financial / Micro-enterprise	Judgment, experience, context-sensitivity in financial decisions	Instrumental / Performance	High — developable through intervention	Management / Behavioral

Table 2: Theory Integration Table - What You Improve & Best Explaining Theory

Theory	What It Explains Well	Limitation	How Financial Wisdom Extends It	Context Where Most Relevant
Human Capital Theory	Knowledge improves outcomes	Assumes linear knowledge → performance	Adds judgment and application layer	Education, training interventions
Financial Literacy Theory	Financial knowledge & skills	Overly cognitive, ignores context	Moves to decision-making competence	Financial education programs
Financial Capability Framework	Behavior + application	Lacks decision-process depth	Adds judgment, adaptability, context-awareness	Policy & financial inclusion
Bounded Rationality	Decision under constraints	Does not specify financial domain application	Operationalized through financial wisdom	Micro-business decision-making

Behavioral Decision Theory	Biases & heuristics	Focuses on deviations, not competence	Integrates into structured decision capability	Risk & uncertainty environments
Practice-Based Theory	Learning through doing	Less formalized for finance	Connects experience to financial decision quality	Informal economies
Entrepreneurial Cognition	How entrepreneurs think	Not financially grounded	Applies cognition directly to financial decisions	SMEs, startups

Table 3: Empirical Anomalies in Financial Literacy Research and the Case for Financial Wisdom

Study	Context	Key Empirical Finding	Observed Anomaly / Gap	Implication	Why It Calls for Financial Wisdom
Fernandes et al. (2014)	Global (Meta-analysis)	Financial literacy explains only ~0.1% of financial behavior variance	Extremely weak effect sizes	Knowledge has limited behavioral impact	Need construct explaining translation of knowledge into action
Drexler et al. (2014)	Dominican Republic SMEs	Simple rules outperform formal financial training	Less knowledge → better outcomes	Complexity of knowledge reduces effectiveness	Need practical judgment and simplification → Financial Wisdom
Karlan et al. (2016)	Developing countries	Financial education has modest or no impact on outcomes	Training does not translate to performance	Knowledge ≠ behavior change	Need mechanism for behavioral conversion
Bruhn et al. (2016)	SMEs (emerging markets)	Limited or no improvement in firm performance	Weak knowledge-performance link	Financial literacy insufficient for firm growth	Need decision-making capability construct
Lusardi and Mitchell (2014)	Global	Strong theoretical importance of literacy	Empirical inconsistencies remain	Theory stronger than evidence	Missing mediating mechanism (wisdom)
Van Rooij et al. (2011)	Netherlands	Literacy influences participation but not always optimal decisions	Participation ≠ good decision outcomes	Knowing leads to action, not necessarily good action	Need quality of decision construct

Cole et al. (2011)	India & Indonesia	Education has weak effect vs incentives	External factors dominate knowledge	Context overrides knowledge	Need context-sensitive reasoning (wisdom)
Beck et al. (2005)	Global firms	Access & constraints affect performance more than internal knowledge	Structural barriers dominate outcomes	Environment shapes decision outcomes	Need construct integrating context + decision
Ayyagari et al. (2011)	Global SMEs	Firm performance varies widely despite similar capabilities	Heterogeneity unexplained	Same inputs → different outputs	Need interpretive/adaptive mechanism
Simon (1955)	Theoretical	Decisions made under constraints, not optimization	Rational models unrealistic	Real decisions are simplified/adaptive	Foundation for judgment-based constructs
Kahneman and Tversky (1979)	Behavioral	Decisions influenced by biases & framing	Rationality assumption violated	Behavior deviates from knowledge	Need integrated decision competence (wisdom)