

Impact of financial literacy on financial decisions and financial outcomes of employees working in it sector (with special reference to Coimbatore)

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Abstract

The term financial literacy has evolved over the years and has become a focus area for researchers and policy makers across the globe in the recent years. Financial literacy refers to the set of skills and knowledge that allows an individual to make effective decisions through the understanding of financial terms and instruments. The outcomes of financial decisions have significant implications for an individual's financial security and standard of living. This study seeks to explore the impact of financial literacy on financial decision and financial outcome. The primary data for the purpose of study have been collected through structured questionnaire from 756 employees working in IT Companies within city limits of the Coimbatore District of Tamil Nadu, India. Based on the results of the study suggestions has been given.

Keywords: financial literacy, financial decisions, skills, instruments

1. Introduction

Financial literacy refers to the set of skills and knowledge that allows an individual to make effective decisions through the understanding of financial terms and instruments. The ability to make well-informed financial decisions plays an important part in the ability of individuals to manage their financial affairs. The outcomes of financial decisions have significant implications for an individual's financial security and standard of living. A person with a good level of financial literacy is in a better position than someone without those skills and knowledge to manage their financial affairs, to budget effectively, invest wisely and manage their debt level in a sustainable manner.

Financial literacy improves the financial well-being of individuals and it also contributes to economic growth and development through individuals' savings and investment as it is one of the most important component for capital formation of the country.

2. Definition of Financial Literacy

According to Australian Unity draft financial literacy and wellbeing measure, "Financial literacy is a person understands of financial concepts and options in the context of their personal economic situation, combined with their behaviours' and judgement to apply the knowledge to achieve a desired level of financial wellbeing". ANZ (2011), Financial literacy is the ability to make informed judgments and to take effective decisions regarding the use and management of money. Financial literacy is therefore a combination of a person's skills, knowledge, attitudes and ultimately their behaviours' in relation to money. OECD (2012), a combination of awareness, knowledge, skill, attitude and behaviour necessary to make sound financial decisions and ultimately achieve individual financial wellbeing.

3. Review of Literature

Lusardi, Annamaria *et al.* (2010) ^[1] examined financial literacy among the young, they showed that financial literacy is low, less than one-third of young adults possess basic knowledge of interest rates, inflation and risk diversification. Financial literacy was strongly related to socio demographic characteristics and family financial sophistication.

Thilakam C, (2012) ^[2] founded that the financial literacy is very important to make efficient decision on their finance. As compared to urban people the rural people have low level of awareness on finance matter. He also concluded that the government should literate the rural people financially through the camp, seminars, and conference then only the rural masses can make their investment in an efficient manner.

Taft, Marzieh Kalantarie, *et al.* (2013) ^[3] founded that that age and education are positively correlated with financial literacy and financial wellbeing. Married people and men are more financially literate. Higher financial literacy leads to greater financial well-being and less financial concerns. Finally, financial wellbeing leads to less financial concern.

4. Statement of the problem

Globally, financial literacy has gained greater importance as financial markets and instruments have become complex and has been difficult to make financial decisions. It is necessary for an individual to have financial literacy to understand the significance of budgeting, managing cash flows and allocating assets to meet financial targets. The ultimate goal of financial stability of individual and the country can be achieved through financial literacy alone. Research around the world has reported that low level of financial literacy prevails at present which may lead to serious concerns about the capability of individuals to secure their financial well-

being. So this study aims to find whether the IT employees have necessary skills and financial literacy to make suitable financial decisions to have a secure financial future as they are the highest paid employees according to the monster salary index report 2016 in India where they have greater propensity to save and invest.

5. Scope of the study

Financial literacy has great impact on financial decisions which will finally lead to financial wellbeing of the investors. This study examines the relationship between financial literacy and financial outcome of the IT employees working in Coimbatore district. Based on the result suggestions have been given for policy implications relating to financial literacy.

6. Objectives of the study

1. To study the demographic profile of IT employees of Coimbatore region.
2. To examine the financial literacy attributes relationship towards financial outcome of IT Employees.
3. To identify the leading objectives of savings and investment which influence the financial decision of IT Employees.
4. To contribute suggestions for policy implications.

7. Hypothesis

- There is positive significant correlation between the financial literacy attributes.
- There is positive significant relationship between the

financial literacy attributes and financial outcome.

8. Methodology

The present research is an attempt to examine impact of financial literacy attributes such as knowledge, attitude, behaviour and self-efficacy on financial decisions to achieve the financial outcome of the employees working in IT sector in Coimbatore is a descriptive research. The study relies on both primary and secondary sources. The primary data have been collected from 756 employees working in IT Companies in the city limits of the Coimbatore District of Tamilnadu, India. The detailed and structured Questionnaire has been used to extract information from the respondents who are well educated and not needed any specific assistance to fill in the questionnaire. The Secondary data have been collected from the various sources like: published and unpublished reports of government and non-governmental organizations, books, journals, magazines and websites. The selection of samples was through simple random sampling determined by using Cochran’s sample determination formula. Framework of analysis was conducting with necessary statistical tools like Percentage Analysis, Garrett Ranking, Correlation and Multiple Regression.

9. Analysis results

9.1 Demographic variables

The demographics of the respondents who are working in IT Companies are classified as age, sex, marital status, educational qualification, designation, experience, and monthly income which are the independent variables for the study.

Table 1: Demographic Variables of the Respondents

S. No.	Demographic Variables	Categories	Respondents (756 Nos.)	Percentage (100%)
1.	Age	24 years and Below	203	26.85
		25 to 34 years	474	62.70
		35 to 44 years	64	8.47
		Above 45 years	15	1.98
2.	Sex	Male	410	54.23
		Female	346	45.77
3.	Marital Status	Unmarried	326	43.12
		Married	430	56.88
4.	Educational Qualification	Under Graduate	377	49.87
		Post Graduate	301	39.81
		Professional	52	6.88
		Others	26	3.44
5.	Designation	Team Leader	61	8.07
		Programmer	568	75.13
		Testing & QC	127	16.80
6.	Experience	Upto 5 years	254	33.60
		5 to 10 years	431	57.01
		10 to 15 years	59	7.80
		More than 15 years	12	1.59
7.	Monthly Income	Less than Rs.50,000	296	39.15
		Rs.50,001 to Rs.75,000	383	50.66
		Rs.75,001 to Rs.1,00,000	54	7.14
		More than Rs.1,00,000	23	3.04

Source: Computed from Primary Data

From the table it is clear that maximum (62.70%) of the respondents belong to the age between 25 and 34years, while 26.85% of the respondents belong to the age below 24 years, 8.47% of the respondents belong to the age of 35 to 44 years

and the remaining 1.98% of the respondents belong to the age above 45 years. It is understood that majority (54.23%) of the respondents are male and 45.77% of the respondents are female. It is observed that most (56.88%) of the respondents

are married and 43.12% of the respondents are unmarried. It is evident that almost half (49.87%) of the respondents are under graduates, 39.81% of the respondents are post graduates, 6.88% of the respondents are professionally qualified and the remaining 3.44% of the respondents possess other qualifications (Diploma, etc.). It is clear that majority (75.13%) of the respondents are programmers, while 16.8% of the respondents are working in testing and the remaining 8.07% of the respondents are Team Leaders. With respect to the experience most (57.01%) of the respondents had experience between 5 and 10 years, 33.60% of the

respondents had upto 5 years' experience, 7.8% of the respondents are having experience from 10 to 15 years and the remaining 1.59% of the respondents are having experience more than 15 years. It is evident that most (50.66%) of the respondents are having income between Rs.50,001 and Rs.75,000 while 39.15% of the respondents are earning less than Rs.50,000, 7.14% of the respondents are having income between Rs.75,001 and Rs.1,00,000 and the remaining 3.04% of the respondents are having income more than Rs.1,00,000.

9.2 Garrett Ranking

Table 2: Rating of the objectives of savings which influences Financial Decisions of IT Employees

Objectives of savings	Garrett Score	Garrett Mean	Garrett Rank
Tax Benefit	37618	49.759	4
Planning for Retirement	35247	46.623	6
Family Welfare	35782	47.331	5
Wealth Maximization	44354	58.669	1
Tangible Dream	39224	51.884	2
Future Needs	34427	45.538	7
Growth and Income	37948	50.196	3

Source: Computed from Primary Data

It is observed from the Table 2 that the rating based on the objectives of savings and investment by the IT employees was found to be high towards "Wealth Maximization" with the mean score of 58.669, while the second position was for "Tangible Dream with the mean score of 51.884, third position was for the "Growth and Income" with the mean

score of 50.196, fourth position was for "Tax Benefits" with the mean score of 49.759, fifth position was for "Family Welfare with the mean score of 47.331, sixth position was for the objective "Retirement Planning" with the mean score of 46.623 and the least rank was for the objective "Future Needs" with the mean score of 45.538.

9.3 Correlation

Table 3: Correlation Results of Financial outcome among IT employees

		Financial Outcome	Financial Knowledge	Financial Attitude	Financial Behaviour	Financial Efficacy	Financial Decision
Financial Outcome	Pearson Correlation	1	.429**	.659**	.649**	.559**	.451**
	Sig. (2-tailed)		.000	.000	.000	.000	.000
Financial Knowledge	Pearson Correlation	.429**	1	.576**	.468**	.344**	.308**
	Sig. (2-tailed)	.000		.000	.000	.000	.000
Financial Attitude	Pearson Correlation	.659**	.576**	1	.683**	.607**	.431**
	Sig. (2-tailed)	.000	.000		.000	.000	.000
Financial Behaviour	Pearson Correlation	.649**	.468**	.683**	1	.742**	.533**
	Sig. (2-tailed)	.000	.000	.000		.000	.000
Financial Efficacy	Pearson Correlation	.559**	.344**	.607**	.742**	1	.483**
	Sig. (2-tailed)	.000	.000	.000	.000		.000
Financial Decision	Pearson Correlation	.451**	.308**	.431**	.533**	.483**	1
	Sig. (2-tailed)	.000	.000	.000	.000	.000	

** . Correlation is significant at the 0.01 level (2-tailed).

It is understood that all the factors shows significant positive correlation and while considering the financial outcome as the base factor it is clear that the financial knowledge have moderate significant correlation with the financial outcome (r=0.429) at 1% level. While, there is a positive high correlation between Financial Attitude and Financial outcome (r=0.659) at 1% level. Further, it is evident that there is a positive significant high correlation between financial

behaviour and financial outcome (r=0.649) at 1% level, it is also observed that there is a positive significant high correlation between financial efficacy and financial outcome (r=0.559) at 1% level. Finally, it is clear that there is a significant positive moderate correlation between financial decisions and financial outcome (r=0.451) at 1% level. Therefore, it is concluded that there is a significant positive

correlation between all the factors which is further analyzed to measure the power distribution using Regression analysis.

9.4 Regression

The Multiple Regression Equation is done to find the influence of different financial literacy attributes on the

Financial outcome from which these attributes such as Financial Knowledge, Financial Attitude, Financial Behaviour, Financial Efficacy and Financial Decision are considered as the exogenous variables and the result based on the Financial Outcome is considered as endogenous variable is presented in the Table 4.

Table 4: Regression Results of Financial outcome among IT employees

R Value	R Square Value	Degree of Freedom – V ₁	Degree of Freedom – V ₂	F-Value	Significance
0.721	0.520	5	750	162.46	0.000

Predictors: (Constant), Knowledge, Efficacy, Attitude, Behaviour, Decision,

It is understood from the Table 4 that the co-efficient of different financial variables in which the correlation was found to be 0.721 which reveals high level of positive correlation between the financial literacy attributes and financial Outcome perceived by the IT employees in Coimbatore and the R² shows 52 percent of variation explained by the independent variables to that of the dependent variable. When this R² was tested for its significance by using ANOVA, F value (162.46) was found to be highly significant at 1 percent level.

$$Y = 2.452 + 0.028 (\text{Financial Knowledge}) + 0.186 (\text{Financial Attitude}) + 0.146 (\text{Financial Behaviour}) + 0.147 (\text{Financial Efficacy}) + 0.112 (\text{Financial Decisions})$$

It is from the Table 5 that the exogenous variables having significant impact on the financial outcome it is understood that out of five variables three variables were predicting the influence of the financial literacy attributes such as Attitude, Behaviour and Decisions that had high level of significance which is clear from the Beta Coefficient and the results based on the Critical Values viz. Financial Attitude (t=9.320, Sig.0.000) which is found to be significant at 1% level, followed by Financial Behaviour (t=6.390, Sig.0.000) which shows significance at 1% level and finally Financial Decision (t=3.337, Sig.0.001) which is also found to be significant at 1% level.

Where Y is the dependent variable a₀ is constant.

a₁, a₂ a_n are the regression coefficients for the independent variables x₁, x₂ x_n respectively.

Table 5: Coefficient of the determinants based on financial literacy attributes having Impact on Financial Outcomes

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.452	.238		10.291	.000
Financial Knowledge	.028	.026	.035	1.109	.268
Financial Attitude	.186	.020	.362	9.320	.000
Financial Behaviour	.146	.023	.279	6.390	.000
Financial Efficacy	.147	.081	.071	1.814	.070
Financial Decision	.112	.034	.101	3.337	.001

Dependent Variable: Financial Outcome

While, the contribution of Financial Efficacy (t=1.814, Sig.0.070) which is found to be significant only at 10% level. Whereas, there is a lack of contribution observed from Financial Knowledge (t=1.109, Sig.0.268) which is found to be insignificant at 5% level.

Garrett Ranking: It is observed from the Table 2 that the rating based on the objectives of savings and investment by the IT employees was found to be high for the objective “Wealth Maximization” and the least rank was for the objective “Future Needs”.

10. Results of the study

Demographics

- Maximum (62.70%) of the respondents belong to the age group between 25 and 34 years.
- Most (54.23%) of the respondents are male.
- Most (56.88%) of the respondents are married.
- It is also evident that most (49.87%) of the respondents are under graduates.
- Majority (75.13%) of the respondents are programmers.
- Most (57.01%) of the respondents are having 5 to 10 years’ experience. Further, it is evident that most (50.66%) of the respondents are earning income between Rs.50,001 and Rs.75,000.

Correlation: It is clear that the low level of correlation was observed with Financial Knowledge and Financial Decisions.

Regression: It is observed that there is no significant relationship between financial knowledge and financial outcome and less significance between financial efficacy and financial outcomes.

11. Suggestions

- Awareness programme should be conducted by the Government to enhance the financial knowledge of investors.

- Financial guidance and training should be given for the investors regularly in order to improve their financial health.
- Government can setup institution for financial literacy to empower the investors.
- Workshops concerning investment products should be conducted to increase the familiarity of new financial products among investors.

12. Conclusion

Financial products are the instruments that help to save, invest, insure and mortgage. These are provided by various banks, financial institutions, stock brokerages, insurance companies, credit card agencies and government sponsored entities to help the investors to invest in wide range of products and ensure safety and growth of their portfolio. For this study financial literacy attributes such as knowledge, attitude, behaviour and efficacy of the individuals are considered and analyzed how these attributes influence their financial decisions and financial outcome. In today's investment market, the employees engaged in IT sector earn exorbitantly higher than the people working in other sectors which initiated the researcher to examine the financial literacy of IT sector employees. Hence, the results throws light on the weaker area of the financial attributes that needed attention by the policy makers to help the IT investors to achieve the desired financial outcomes. It is observed that even though, low level of correlation was observed between financial decision and financial outcome the regression results were found to be significant while there is a need to improve the financial efficacy. It is concluded that based on the perception of the IT employees it is evident that there is a need to improve the knowledge and financial efficacy to achieve the necessary financial outcome.

13. References

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