



Role of Demographic Factors in Financial Literacy and Financial Planning among Businessmen: A study among Small Business Owners

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Abstract

Financial literacy and financial planning are one of the most important skills to be attained by all. Lack of financial literacy and financial Planning are the reason for the failure of most of the business and suicides due to debt trap. According to a global survey, about 73 percent of Indian adults are financially illiterate and it is consistently poor as compared to the rest of the world. Financial literacy and good financial Planning help to manage the financial fund, effectively save enough for future need, invest surplus effectively and also helpful in avoiding high levels of debt that might result in default, bankrupt which in turn leads to suicides. The financially competent persons can perform the role of a business men more effectively by managing the financial resources, avoiding/reducing the expenses through financial discipline. This study is an attempt to examine the financial literacy and financial Planning of small business.

Study found that majority of the respondents not financial literate. Majority of the respondents have the habit of long term planning for savings and investment but they don't have the financial habits of long-term planning for: Expense/Income, identifying financial products and the risk/return characteristics and day to day financial management and budgeting. Based on Chi-square test it is observed that age and education has significant impact on the level of financial literacy: formal education has increased the financial literacy, youngsters are more financially literate.

It is observed that there is still need for formal and informal financial education and training for increasing the financial literacy and financial Planning. It is high time to introduce financial literacy in the curriculum at the school and college level. If formal mechanism is not possible, informal ways may also be used. The newspapers and other media should also take necessary steps to educate the public about the basic concepts of financial literacy. NGOs and educational institutions can play a good role to eradicate this illiteracy that restrain the economic development.

Key Words – Financial Literacy, Financial Planning, Small Business

JEL Classification – C1, E7 and G5

Introduction

The way in which we understand and approach finance can have a huge impact on the decisions we make in our life like from food and lifestyle choices, to career and family matters. It is very essential that everyone especially businessmen should have the ability to understand how money works; how to manage it to earn and to invest. Financial literacy helps to manage the fund effectively save enough for future need, invest surplus effectively and also helpful in avoiding high levels of debt that might result in default, bankrupt which in turn leads to suicides. The Organization for Economic Co-operation and Development (OECD) has defined financial literacy as¹ "A combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing." Financial literacy is inevitable for financial wellbeing.

Financial Literacy and Its Importance

A financially competent person should have a clear idea about the basic financial concepts and principles such as interest, compound interest, insurance, debt management, financial planning, budgeting etc. It helps in making appropriate financial decisions throughout the life like investing, saving, insurance, managing debts, buying a house, child education, retirement planning. It also helpful in day to day management decisions such as buying any assets and day to day purchase household items and necessities. It distinguishes the difference between wants and needs. It also helps individuals to achieve financial stability and to attain financial freedom. Financial knowledge is indispensable for achieving financial growth and success. In nutshell it is the capacity to have a solid financial plan. Most surveys show that the financial literacy is still poor in India. An all India survey conducted by National Centre for Financial Education shows that only 27 per cent of Indians are financially literate though India has a higher (close to 80 per cent) general literacy².

Review of Literature

Jeyanthi (2018) studied problems of financial literacy of rural people in India and found that majority faces inaccessibility to financial products and services. The study also found that financial literacy influences the household well-being.

Ahmed (2018) based on review of literature found that the important internal factors affect financial literacy are education, age, literacy, positioning in life cycle, Focus on Financial matters, cognitive functioning, Family dynamics, Household structures, gender, health. The external factors are religion, stereotype threads, income uncertainty, access to financial advice, geography, demographics, financial system development, economic environment etc.

Haque Abdul & Zulfiqar Mehwish (2016) found that economic empowerment is associated with financial wellbeing and financial literacy and positive financial attitude is an essential requirement of women empowerment.

¹ <https://www.oecd.org/finance/financial-education/measuringfinancialliteracy.htm>

² Only 27 % of the Indian are Financially Literate, Financial Express National Daily, 24th November 2020

Aliet al. (2013) found that the major determinants of financial literacy are money management, financial planning, investment know how, financial activities and attitude to money. The financial satisfaction of a person can be determined from financial literacy.

Haque Abdul & Zulfiqar Mehwish (2016) found that economic empowerment is associated with financial wellbeing and financial literacy and positive financial attitude is an essential requirement of women empowerment.

Agarwalla, et.al. (2013) examined the financial literacy among working young in urban India using OECD approach. Basic principles of money matter and household finance such as compound interest, inflation rate impact on returns and prices, and the diversification roles are not well understood. Gender and family income influence financial literacy of the youngsters, men are comparatively more literate. The study reveals that high education levels have not led to high level of financial literacy. Only 24 percent of the youths have high financial knowledge which is much lower than OECD survey done in 13 countries earlier.

Altintas (2011) based on University Students in Turkey found that age, education level of parents are the most significant factors

Chen and Volpe (2002) based on the survey among students from fourteen universities of U.S. found that women have less knowledge about personal finance and education and experience are the major determinants of financial literacy

The literature review shows that India is much behind in financial literacy. Socio economic factors are important in determining the level of financial literacy of individuals. Though there are much studies there is no study which address the literacy and financial Planning of the business owners.

Statement of the Problem

Most of the financial literacy surveys conducted worldwide shows that majority of the individuals are not having sufficient knowledge to understand the basic financial fundamentals. Absence of financial literacy creates failures in their life and they are unable to take effective decisions to secure their life with financial safety. Financial literacy is much important for small business owners because it helps the individuals to identify the debt traps, fraud and wastage of money due to ignorance and save for future needs. The awareness of financial concepts is much important for reducing the stress level also.

Despite of the high literacy rate in Kerala many people are pushed into huge debt traps ultimately leading to suicides. Though the business may have adequate earnings, if they don't have good financial Planning they may not survive in the long run or achieve high business development. Hence level of financial literacy and habits is to be rightly examined. This study is an attempt to examine the financial literacy and financial Planning of the small business owners.

Objectives of study

The study has the following objectives:

1. To Study the level of financial literacy of the small business owners.

2. To ascertain the influence of demographic factors in the level of financial literacy of the small business owners.
3. To examine the financial planning of the small business owners.

Methodology of the Study

The study is descriptive and analytical in nature. Primary data are collected through a survey method from the respondents using structured questionnaire. A sample of 120 respondents are selected from Alappuzha District using convenience sampling method from 3022 small business units. Alappuzha district is one of the thickly populated district in Kerala. The data collected have been analysed using percentage analysis and Chi-square test.

Operational Definitions

Financial Literate - A person is considered as financially literate if he knows well or apply at least 5 out of the 7 basic concepts related to personal finance management like Interest, Compound Interest, Inflation, Penal interest, Risk Diversification, Insurance and Type of General Insurance

Financial planning – Long term, short term and day-to-day management of financial resources. It helps them to become financially competent and motivated.

Data Analysis and Discussion

Analysis is presented in 3 different heads

1. Level of Financial Literacy of the Respondents
2. Relation between Financial Literacy and Socio Economic Background of the Respondents
3. Financial Planning of the Respondents

Analysis of Level of Financial Literacy of the Respondents

To examine the level of financial literacy of the respondents their awareness about the seven basic concepts of the financial literacy is examined. The respondents who have selected the any of the two options; know well and apply about the basic concepts are considered as he/she is aware about the concept and the respondent who selected the option of heard the concept and wants to know about the concept is considered as unaware. The details regarding the awareness about the basic financial concepts of the financial literacy of the respondents are presented in table 1

Table 1 Awareness About the Basic Concepts of Financial Literacy

Concept	Aware	Percent	Unaware	Percent
Interest	84	70	36	30
Compound Interest	61	51	59	49
Inflation	53	44	67	56
Risk Diversification	30	25	90	75
Life Insurance	68	57	52	43

Penal Interest	40	33	80	67
General Insurance	55	46	65	54

Source: primary data

Table 1 shows that majority of the respondents are aware about the concept of interest compound interest and life insurance but not aware about the other basic concepts. Majority of the respondents are not aware about the concepts of inflation, penal interest, risk diversification and general insurance. A person is considered as financially literate if he knows well or apply at least 5 out of the 7 basic concepts stated as above. The financial literacy of the respondents is presented in Table 2.

Table 2. Financial Literacy of the Respondents

Respondents	Literate	per cent	Illiterate	per cent
The Respondents	55	45	65	55

Source: primary data

The result presented in table 2 shows that majority (55 Per cent) of the respondents are not financially literate.

Influences of Socio-Economic Factors on Financial Literacy of the Respondents.

The socio-economic background of the respondents may have some impact on their attitude and perception towards financial matters related to their life. This section examines is there any relationship between level of financial literacy and socio-economic background of the respondents.

Influence of Level of Education on Financial Literacy

Education gives us knowledge and equip us to identify changes happens around us. Education makes us capable of interpreting the changes. The education wise difference in financial literacy of the respondents are presented in Table 3

Table 3 Education wise difference in financial literacy of the Respondents

Qualification	Literate	Percentage	Illiterate	Percentage	Total	Total Percentage
Below SSLC	14	37	23	62	37	100
SSLC	24	47	27	53	51	100
Undergraduate	9	52	8	47	17	100
Graduate and PG	8	53	7	47	15	100
Total	55		65		120	100

Chi-Square value – 289

Source: Primary Data

Null Hypothesis - Educational qualification of the respondents does not have any significant influence his/her level of financial literacy.

Table 3 shows that majority of the respondents in the sub class below SSLC and SSLC are not literate but majority of the undergraduates and graduates are financially literate. So it is assumed that there is some significant relationship between educational qualification and level of financial literacy of the respondents. To check it statistically Chi-Square test is applied. The calculated Chi-Square value 289 is higher than the table value (7.815). Hence the null hypothesis of no significant relationship between financial literacy and education of the respondents is rejected. It means that education has significant impact on financial literacy, education level has increased the financial literacy.

Level of Financial Literacy and Age of the Respondents

Ability to decision is always related to age group. High age groups may have more experience and knowledge in managing the financial aspects. The age wise difference in financial literacy of the respondents is presented in Table 4

Table 4 Age wise difference in financial literacy of the Respondents

Age Group	Literate	Percentage	Illiterate	Percentage	Total	Total Percentage
18-35	25	68	12	32	37	100
36-55	20	34	38	66	58	100
56+	10	38	16	62	26	100
Total	55		65		120	
<i>Chi-Square value – 17</i>						

Source: Primary Data

Null Hypothesis - Age of the respondents does not have any significant influence his/her level of financial literacy.

From the table 4 it is clear that majority (61 per cent) of the respondents belonging to the age group 18-35 are financially illiterate. But it is also understood that majority of respondents belonging to the age group 36-55 and 56 and above are financially illiterate (69 and 64 per cent respectively). To know whether age has any significant role in determining the financial literacy Chi-Square test is applied. The calculated Chi-Square value 17 is greater than the table value (5.991) at five percent level of significance, hence the assumption of independence of age is rejected and it is concluded that age has significant impact of the level of financial literacy of the respondents. Youngsters are more literate.

Level of Financial Literacy and Income of the Respondents

Low and middle income groups may be more conscious about their spending and saving. The income wise difference in financial literacy of the respondents are presented in Table 5

Table 5 Income wise difference in Financial Literacy of the Respondents

Income Category	Literate	Percentage	Illiterate	Percentage	Total	Total Percentage
Low Income	11	42	15	58	26	100
Middle Income	28	48	30	52	58	100
High Income	16	45	20	55	36	100
Total	55		65		120	
<i>Chi-Square value – 4.144</i>						

Source: Primary Data

Null Hypothesis - Income of the respondents does not have any significant influence his/her level of financial literacy.

From the Table 5 it is observed that irrespective of the income majority of the Respondents are financially illiterate. The calculated Chi-Square value to check independence of income on financial literacy was found to be 4.144 which is less than the table value (5.991) at five percent level of significance and it is concluded that income has no significant impact of the level of financial literacy of the respondents.

Level of Financial Literacy and Marital Status of the Respondents

Married individuals may be more conscious about their income, expenditure and future need of the family. The marital status wise difference in financial literacy of the respondents is presented in Table 6

Table 6 Marital Status wise difference in Financial Literacy of the Respondents

Marital Status	Literate	Percentage	Illiterate	Percentage	Total	Total Percentage
Married	32	45	38	55	70	100
Single	23	46	27	54	50	100
Total	55		65		120	
<i>Chi-Square value – 3.81</i>						

Source: Primary Data

Null Hypothesis - Marital Status of the respondents does not have significant influence his/her level of financial literacy.

From the Table 6 it is clear that majority of the respondents is financially illiterate irrespective of their marital status. The chi-square value between marital status and financial literacy of the respondents is 3.81 which is less than the table value (3.84) at five percent level of significance, hence it is concluded that marital status has no significant impact of the level of financial literacy of the Respondents.

Level of Financial Literacy and Place of Residence of the Respondents

Place of residence may have significant impact on the nature of decision of the individuals. Persons living in urban are may be more exposed to recent developments and may have more accessibility to various financial products. The place of residence wise difference in financial literacy of the respondents are presented in Table 7.

Table 7 Location-wise difference in Financial Literacy of the Respondents

Place of Residence	Literate	Percentage	Illiterate	Percentage	Total	Total Percentage
Rural	26	44	32	55	58	100
Urban	29	46	33	54	62	100
Total	55		65		120	
Chi-square Value – 3.8						

Source: Primary Data

From the Table 7 it is clear that majority of respondents is financially illiterate irrespective of their place of residence. Assuming no influence of place of residence on financial literacy of the respondents, the calculated Chi-square value is 3.8 which is greater than the table value (3.841) at five percent level of significance, hence it is concluded that place of residence has no significant impact of the level of financial literacy of the respondents.

Financial Plannings of the Respondents

Sound financial Planning are one of the inevitable quality that required by the business owner to manage his business effectively. In this study four different financial Planning considered for the analysis the details are presented in Table 8.

Table 8 Financial Planning of the Respondents

Questions/Opinion	Heard (Percentage)	Know well (Percentage)	Apply / Use (Percentage)	Wants to know more (Percentage)	Total
Long-term planning for: Expense/Income	37	13	38	12	100
Long-term planning of: Savings/ Investment	25	7	55	12	100
Identifying Financial Products and the risk/return characteristics	33	24	32	11	100
Day to day financial management and budgeting	47	14	29	10	100

Source: Primary Data

An individual who select the option of apply or use is considered as the person having financial habit. Table 8 shows that the respondents have the habit of long term planning for savings and investment and does not

have the other financial Planning such as Long-term planning for: Expense/Income, Identifying Financial Products and the risk/return characteristics and Day to day financial management and budgeting.

Findings and Conclusion

The study found that majority of the business owners are financially illiterate (55 per cent) and they don't not know the basic financial concepts. Income, marital status and place of residence has no significant impact of the level of financial literacy of the respondents. Education and age has significant impact of the level of financial literacy; formal education has increased the financial literacy and youngsters are more financially literate. Majority of the respondents have the habit of long term planning for savings and investment but they don't have the financial habits of long-term planning for: Expense/Income, identifying financial products and the risk/return characteristics and day to day financial management and budgeting.

Recommendations

The study has identified the need for providing financial education to the respondents to inculcate the habit of day to day financial management and budgeting. It can be provided at School and College level. General awareness about financial products, risk diversification, planning for income and expenditure, importance of savings, risk, return and financial fraud is to be provided to all the general public. It is high time to introduce financial literacy in the curriculum at the school and college level. If formal mechanism is not possible, informal ways may also be used. The newspapers and other media should also take necessary steps to educate the public about the basic concepts of financial literacy. NGOs and educational institutions can play a good role to eradicate this illiteracy that restrain the economic development.

Conclusion

Majority of the respondents do not have adequate financial awareness about basic financial literacy. The level of financial literacy of the business owners are better than the general literacy at national level. But there is still need for financial education and training. General education has some impact of the level of financial literacy of the respondents. Age has significant impact of the level of financial literacy. Youngsters are more financially literate.

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