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IMPACT OF FINANCIAL LITERACY ON FINANCIAL BEHAVIOR OF MANAGEMENT UNDERGRADUATES IN SRI LANKA - EVIDENCE FROM A STATE UNIVERSITY OF SRI LANKA

Tharanga, B.B
Department of Banking and Finance, Faculty of Business Studies & Finance,
Wayamba University of Sri-Lanka
buddhinith@wyb.ac.lk

Gamage, S.C
Department of Banking and Finance, Faculty of Business Studies & Finance,
Wayamba University of Sri-Lanka
sadeekachethani@gmail.com

Abstract

The evolution in financial markets has resulted in the availability of a wider selection of financial products and services, making financial decisions multifaceted and more complicated. Financial literacy acts as an essential tool that assists in making better financial decisions in the current complex and dynamic financial market. Therefore, this paper aims to examine the impact of financial literacy on financial behavior, focusing a category of individuals who are actively engaged in making financial decisions. Hence, the study has selected 200 undergraduates who follow a degree in the area of Management in a state university in Sri Lanka. The study has identified three independent variables namely, Knowledge on savings, credit, and budgeting to measure the Financial Literacy of an individual. The study carried out a correlation and regression analysis in order to identify the relationship between Financial Literacy and the Financial Behaviour of an undergraduate. Findings of the study revealed that financial literacy on saving, credit and budgeting has a *significant positive effect on the financial behavior of an individual. The results of the study will be useful to many parties such as the government, Educational and Industry Experts in order to make decisions in the current context.*

Keywords: Financial Literacy, Financial Behavior, Savings, Credit, Budgeting

INTRODUCTION

Financial literacy can be defined as a combination of financial knowledge, skills, attitudes and behaviors necessary to make sound financial decisions, based on economic and personal circumstances, to improve one's financial wellbeing (Abeyasuriya, 2018.). Financial skills are needed to grow personal well-being as well as the country`s economic growth (Sabitova, & Muellller, 2015). Arrondel et al (2014) state that a society that is financially illiterate can cause many issues for a country's economy. Better financial knowledge and skills are important both for citizens and the country`s economic growth. Therefore, financial literacy has become an increasingly significant research topic in recent years. In fact, individuals make many types of financial decisions during their daily life cycle.

Based on the secondary data, there can be seen financial literacy rate has been gradually increased in past few years. In 2019 it was 35% (Dawoodbhoy, 2019) which represented a common value for the country. However, there was no evidence of a percentage that was calculated for a particular category out of the general public. (E.g.; School students, undergraduates, graduates, professionals, matures, elders, etc.). Therefore, researchers believe that it is important to investigate the level of financial literacy and the nature of financial behavior specifically for different categories as it is quintessential to find out whether individuals who poses sound financial education act better compared to other categories in society. One of these types of individuals can be identified as undergraduates. Undergraduates who are studying in the Management stream are expected to show a thorough knowledge of finance. scholars who are studying in the field of management have access to financial education than others as they follow many finance-related subjects under their degree programmes.

But to the best of the researchers' knowledge no sufficient studies have been carried out to investigate how this level of financial literacy influences the nature of the financial behavior of the scholars in a country, who can be identified as one of the main categories of people who supposed to show a better financial behavior comparative to many other types of individuals in a country. Hence this research south to fill the gap by investigating the Impact of Financial Literacy on Financial Behavior of Management Undergraduates, with special reference to a state university of Sri Lanka. Therefore, the main purpose of this research paper is to investigate the relationship between financial literacy and the financial behavior of management undergraduates in Sri Lanka. In addition to the main objective, there are secondary objectives that are to be achieved by the researcher. Those are, to identify the level of the financial literacy and nature of the financial behavior of students, to identify the relationship between financial literacy on savings, credit, budgeting and financial behavior of management undergraduates. According to the objectives, the researcher formed the main question of the study as what is the relationship between financial literacy and financial behavior of management undergraduates in Sri Lanka?

REVIEW OF LITERATURE

Financial literacy

Huston (2010) describes financial literacy as measuring how well an individual can understand and use personal finance-related information. Remund, (2010) identified financial literacy as "*a measure of the degree to which one understands key financial concepts and possesses the ability and confidence to manage personal finances through appropriate, short-term decision-making and sound, long-range financial planning, while mindful of life events and changing economic conditions".* Cude et al. (2006) define personal financial literacy as "*the ability to read, analyze, manage and communicate about the personal financial conditions that affect material well–being".* Studies by Remund (2010) and Huston (2010) conclude that financial literacy consists of content areas such as basic money concepts, saving and borrowing, investing, financial planning and protecting resources (insurance). Botha (2014) also have conducted a study by considering knowledge on money basics, Savings, Credit and financial resources protecting instruments as the factors to measure a person's financial literacy.

Savings can be used to increase income through investing (Kagan, 2019). Some may argue that high levels of saving reflect societies that are not spending, hence not contributing toward boosting national aggregate demand and economic growth (Mahdzan and Tabiani 2013). Kostakis (2012) has examined the consumers' saving behavior through demographic characteristics, economic variables and psychological factors. Results suggested that income is the most significant variable for saving and also saving is affected positively by education and previous savings rate but inversely by marital status and female status. Moreover, showed that the importance of consumers' attitude on their financial situation. First, consumers who believe that the previous financial year was worse than they expected, are less likely to save. Second, consumers who believe that they do not have the ability to repay are also tend to save less.

Thirdly, consumers who have demanded financial help from a relative or a public organization in order to satisfy their needs had fewer savings than others.

Mahdzan &Tabiani (2013) have examined the factors that influence individual saving with a focus on financial literacy, in the Malaysian context. Overall results have been shown that financial literacy is an important determinant of individual saving. Further results indicate that individuals have a relatively good level of basic financial knowledge such as computing interest rate/ percentages and knowledge on relative riskiness of financial assets, the understanding of the stock market, unit trust, risk-return of the assets are relatively low.

Most of the industries regardless of the scale, sector or nature of the business, have a significant dependency on budgets and budgetary systems when achieving their strategic goals (Raghunandan et al, 2012). The process of budgeting involves setting strategic goals and objectives and developing forecasts for revenues, costs, production, cash flows and other important factors (Bonner 2008 and Raghunandan et al., 2012). According to Campbell (1985), a budget is a "*quantitative analysis prior to a defined period of time, of a policy to be pursued for that period to attain a given objective"*.

Disney and Gathergood (2012) states that consumers who borrow money to fulfill their consumption needs need to have a better understanding on their cost of borrowing. Credit providers offers different variety of loan facilities such as consumer loans and advances hire purchasing loans Vehicle loans and housing loans etc. All these types of loans have a common set of semantics for the cost of borrowings in terms of the rate of interest. Other than the aforementioned types the rural credit which is also known as microfinance is a type of loans which is specifically can be seen in developing countries. The borrowers who demand microfinance loans are a type of borrowers who do not have much access to many other types of loans or formal credit institutions (Hoff & Stiglitz 1990; Nguyen 2007).

Nguyen, (2007) points out that education, health condition, fixed assets holding and distance from household to formal bank branch are among the most important factors affecting households' credit activities. Disney & Gathergood, (2012) use survey data from a sample of UK households to analyze financial literacy and consumer credit portfolios. The study has revealed that people who demand consumer loans show worse level of financial literacy than the people who do not apply for consumer loans. Also, it was identified that Borrowers who possess low level of financial literacy hold more proportion of high cost credit. Further analysis showed that individuals with poor financial literacy are more likely to lack confidence when interpreting credit terms, and to exhibit confusion over financial concepts and also respondents are less likely to engage in behavior that might help them to improve their awareness of the credit market.

Lusardi and Tufano, (2009) analyze a national sample of Americans with respect to their debt literacy, financial experiences, and their judgments about the extent of their indebtedness and found that out of the population, only a proportion of one third seems to understand the method of interest calculations or the workings of a credit card. Further findings suggested a strong relationship between debt literacy and both financial experiences and debt loads. Individuals with inadequate debt literacy, in particular, are more likely to transact in high-cost ways, paying greater fees and employing high-cost borrowing. Also, less knowledgeable respondents possess high debt loads and are unable to judge debt position. However overall found that debt literacy is low among the respondents. Oosterbeek and Broek (2009) analyze the borrowing behavior of high education students in the Netherlands. And found that students with easier access to financial resources borrow less often and students with good earnings prospects or/and high discount rates borrow more often.

Impact of Financial Literacy on Financial Behavior

Any human behavior that is related to money management can be classified as financial behavior. Cash, credit, and saving are identified as common financial activities. (Ozmete, 2015) Ibrahim et al., (2009) suggest that lack of financial knowledge leads to poor money management skills. Arthasad (2017) points out that financial knowledge and attitudes are not fully reflected on financial behavior and financial knowledge and attitudes have a positive impact on financial behavior since financial knowledge and attitudes are crucial in explaining financial behavior.

Edirisinghe et al., (2017) identified that the financial literacy level of management undergraduates of Sri- Lankan universities is at a moderate level. Further, it was revealed that financial behavior as a whole has significant positive correlations with financial literacy on money management, savings, credit, investment, insurance. Further results show that apart from financial literacy on money management rest of the dimensions, namely financial literacy on savings, investment, credit and insurance have a positive significant effect on the financial behavior of management undergraduates of Sri Lanka. Beal and Delpachitra, (2003) point out that financial literacy improved with work experience and income. Further found that financial literacy is not high and this, no doubt, stems from the lack of financial-skills education in high schools.

Lantara and Kartini (2015) indicate that the financial literacy level of university students in Indonesia tends to be lower. Further identified that education level and academic disciplines were positively associated with the financial literacy rate. Jorgensen (2007) explored the personal financial literacy of a sample of undergraduate and graduate college students employing gender, rank in the class, socioeconomic position and parental and peer impact to measure the level of financial literacy of the students. The results initially recorded a low score in relation to financial knowledge, attitude, and behavior but it was noted that the results were significantly increasing each year with their level of education from freshman to Masters level. Further, it also discovered that students who were influenced by their parents on financial matters possess better knowledge attitude and financial behavior. The study has proved that students with high financial knowledge tend to show a better financial behaviour compared to others.

Thapa (2015) has analyzed the students' financial behavior, influence, attitude and knowledge of students in universities of Nepal. The study found that students are more knowledgeable in the basic level of finance while they are less familiar with bank credit, taxes, share markets, financial statements and insurance. Instead of buying an insurance policy, investing in stock markets, buying jewelry and lending friends, most of the students are involved in bank savings. Bird (2008) has indicated that students have a good level of financial literacy at the University of Wollongong. Disney & Gathergood, (2012) showed that individuals with poor financial literacy are more likely to be over-borrowed.

Fatoki (2014) examined the level of financial literacy of non-business university students in South Africa through four clusters, such as understanding income, understanding money management, understanding savings and investment and understanding spending and debt. Results suggested that respondents' financial literacy on understanding money management is low and the highest in understanding income. Further results suggest that the financial attitudes and behavior of non-business students are weak.

By reviewing the literature, the researcher developed a model to conceptualize the framework of the study as follows:

Figure 1 Research framework

Hypotheses

H_1- There is a significant relationship between financial literacy on savings and financial behavior of management undergraduates in Sri Lanka

H_2- There is a significant relationship between financial literacy on credit and financial behavior of management undergraduates in Sri Lanka

H_3- There is a relationship between financial literacy on budgeting and financial behavior of management undergraduates in Sri Lanka

METHODOLOGY

The current study was focused on the relationship between financial literacy and financial behavior of university students. Financial literacy act as the independent variable and financial behavior act as the dependent variable. Generally, explanatory studies have established a relationship among variables, and such studies have been carried out when the researcher wanted to gain a better understanding of an issue (Saunders et al., 2009). Thus, explanatory research was designed to reach a conclusion on the research problem. The researcher selected undergraduates of state universities as a population and using the convenience sampling method researcher has selected 200 management undergraduates as the sample.

Data were collected through a questionnaire which consists of three sections. The first section analyzes demographic characteristics, the second section consists of testing questions that measure financial literacy level and five-point Likert scale questions were included in the third part to measure the nature of financial behavior. For data analysis, SPSS software has been occupied. The researcher has carried out the normality test and multicollinearity test in order to validate the data prior to analysis. Next descriptive analysis was done for independent and dependent variables. After that correlation analysis was used to test the relationship between variables and Multiple regression modal was used to identify the significance of variables which was developed by the researcher.

FINDINGS

Descriptive Analysis

The descriptive analysis revealed that 85.5% of the students provided correct answers for the questions which were used to test knowledge on savings. Proportionately 81.6% of the sample provided correct answers for the questions which were used to test knowledge on credit. The percentage that provided correct and incorrect answers for the questions related to budgeting is 82.2% and 17.8% of the respondents respectively. The overall majority of the students' financial literacy level is at a good level which represents 78% of the sample. 20% of the students have a very high level of financial literacy and 2% of the students have a moderate level of financial literacy. Most of the students' nature and the level of financial behavior is at a good level, it's about 69.5% of the sample. 26% of students' nature and the level of financial behavior is at an excellent level as well as 3.5% of the students' level of financial behavior is at a moderate level, 1.5% of the students represent the poor level of financial behavior and no one represents the very poor level of financial behavior among undergraduates.

Multiple Regression Analysis

To analyze the impact of each dimension of financial literacy (savings, credit, budgeting) on financial behavior multiple linear regression was utilized. Table 1 shows the summary of the model. The figure "R" multiple correlation depicts how strongly the multiple independent variables related to the dependent variable. R records a value of 0.683 suggesting a positive correlation between dimensions of financial literacy and the financial behavior of management undergraduates. R Square tells how much of the variance in the dependent variable is explained by the model. The figure R square is 0.467 which can be interpreted as 46.7% of the variance of dependent variables (financial behavior of management undergraduates) can be explained by the independent variable (dimensions of financial literacy).

Table 1 Multiple Regression Analysis

	R	R square		Beta	Significance
Multiple regression	.683[a]	.467	Financial literacy on savings	.237	.000
			Financial literacy on credit	.561	.000
			Financial literacy on budgeting	.418	.000

The regression model developed is as follows,

$Y_{FB} = \beta_0 + \beta_1 X_{FLS} + \beta_2 X_{FLC} + \beta_3 X_{FLB} + et$

$Y_{FB} = -0.283 + 0.237X + 0.561X + 0.418X + et$

FB = Financial Behavior

FLS = Financial Literacy on Savings

FLC = Financial Literacy on Credit

FLB = Financial Literacy on Budgeting

Based on the results of table 1 and the regression model, it can be identified that there is a significant positive relationship between financial literacy on savings, credit, budgeting and financial behavior. Hypotheses are accepted at a 5% level of significance. The tested financial literacy dimensions (savings, credit, budgeting) are significantly affected on financial behavior. According to the Regression result, three variables of the regression model are significant at a 5% significant level. Financial literacy on credit has a higher coefficient value of .561 and shows a significant positive impact on the dependent variable. However, all three variables are found to have a significant positive relationship with the financial behavior of the Management undergraduates in Sri Lanka (Table 2).

Table 2 Hypotheses testing results

Hypothesis	Results
H_1- There is a relationship between financial literacy on savings and financial behavior of management undergraduates of Wayamba University	Accepted
H_2 - There is a relationship between financial literacy on budgeting and financial behavior of management undergraduates of Wayamba University	Accepted
H_3 - There is a relationship between financial literacy on credit and financial behavior of the management undergraduates of Wayamba University	Accepted

Table 3 presents the results of the ANOVA analysis which was used to identify the significance of the overall model of Financial Behavior. Here F value is equal to 57.176 and P-value equal to 0.000, which is significant at 0.05 level of significance. Therefore, the validity of the model was confirmed.

Table 3 Summary of ANOVA analysis

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.700	3	.900	57.176	.000[b]
	Residual	3.085	196	.016		
	Total	5.785	199			

CONCLUSION

This study focused on the level of financial literacy and the nature of financial behavior of management undergraduates with special reference to a state university in Sri Lanka. As per the findings, it was found that undergraduates have better financial literacy and shows a good financial behavior as the level of financial literacy and the nature of financial behavior was positioned at a good level based on the answers given. Further findings showed that financial literacy on savings, credit and budgeting has a positive significant effect on financial behavior of the undergraduates. This concludes that financial literacy on savings, credit and budgeting are valid determinants to identify the nature of financial behavior of the undergraduates in Sri Lanka. The results were similar to the prior studies done in other countries which have also found a positive relationship between financial literacy and financial behavior (Arthasad, 2017).

Also, several past studies have found that financial literacy is an important determinant of individuals' savings, as it was proven that better saving behavior occurs as a result of high financial literacy (Mahdzan & Tabiani, 2013). Individuals with a higher level of financial literacy appear to be less likely to exhibit excessive borrowing behavior and shows more informed and better behaviour in managing credit.

The findings of the study can be applied by the government when introducing new academic programs to universities aiming to produce more graduates who have knowledge in the area of personal finance even though they follow degrees in different streams. Moreover, this study will also assist the employers in the industry who wish to recruit graduates with sound financial literacy for their organizations. Based on the findings, to improve financial literacy researcher proposes to include more subjects related to Financial Management into the curriculum from year one of a degree programme in the university. University can provide online hubs facilities for financial education as well as they can arrange seminars, programs conducted by financial experts in order to develop students' awareness on financial literacy and financial behavior. Also, it is suggested to appoint financial counselors for all students to advise them on managing personal finance. The sample of this study was confined to a State University's Undergraduates who are currently studying Management for their degree programmes. Also, the researcher employed only three determinants of financial literacy as Savings, Budgeting & Credit to assess the impact on Financial Behavior. Therefore, it is recommended to carry out further researches to identify factors that were left unexplored due to the limitations of the study.

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