

Effect Of Financial Literacy On Personal Financial Management Of IT Employees In Kerala

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ABSTRACT: Today's complex financial service markets offer consumers a vast array of products and services to meet their financial needs. The degree of choice requires that consumers be equipped with the financial knowledge and skills to evaluate the options and identify those that best suit their needs and circumstances. The role of financial literacy with regards to sound personal finance management practice is a question many struggle with. Employees in the IT sector who are having less knowledge about various financial instruments as they come from non commerce stream. So study on this particular area will gain importance. A multi-stage random sampling method has been used for selecting the respondents for the purpose of the study. The findings show that there are lot of factors strongly influenced the personal financial management. The results conclude that majority of the respondents save less proportion of their salaries. This can be attributed to the high cost of living hence their investments are financed through loans. It is very important for every individual to plan and manage their personal finances in order to lead a happy life. It is important for every individual to have personal financial plan in order to meet their financial goals and obligation, help to retire in comfort, achieve financial freedom, make rational financial decisions and take advantage of every financial opportunity.

KEYWORDS - Financial Decision, Financial Knowledge, Financial Literacy, Personal Financial Management, Personal Investment.

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I. INTRODUCTION

The term financial literacy was first coined in 1787 in the USA, when John Adams in a letter to Thomas Jefferson admitted the need for financial literacy for overcoming the confusion and widespread distress in America that had arisen due to ignorance towards credit, circulation and nature of coin (Financial Corps, 2014)[1]. Thereafter, several developments took place and the term financial literacy was used again and again by different researchers, organisations and governments and was addressed differently (Hung et al., 2009)[2]. (Remund, 2010)[3] Reviewed that, various research studies since 2000 and considered the conducting of research on financial literacy a big challenge as there was no well-defined standard definition of financial literacy in the literature. Financial literacy helps individuals to improve their level of understanding of financial matters which enables them to process financial information and make in-formed decisions about one's finances. Financial literacy has a direct relationship to the well being of individuals. Earlier research points that those with low levels of financial literacy face problems with issues relating to personal finance such as savings, borrowings, investments and retirement planning. Over the recent years, financial landscape has changed considerably becoming complex with the introduction of many new financial products. (Puneet, 2014)[4]

Financial literacy has received increased attention since the global financial crisis and the literature confirms that it is correlated with personal financial management. It is difficult for a common man to understand the risk associated with various financial products. So as to understand risk and return associated with these products, a certain level of financial literacy is required. People who a financially literate can make effective use of these financial products and services by evaluating associated risks and returns and finally choosing those products which are suitable to them. Thus persons who are financially literate can make effective use of financial products and services and will not get cheated by sales people selling financial products unsuitable to them. Literacy in money matters aids in improving the quality of financial services and contribute to economic growth and development of a country. Through this paper an attempt has been made to know whether financial literacy affects the personal financial management of salaried IT employees in Kerala.

1.1 Financial Literacy

Worthington (2005) [5] defines financial literacy as the capability of exercising right judgement when making decisions relating to financial matters. Financially literate persons have the ability to make informed decisions relating to their pensions. This is because their confidence is developed out of the financial skills gained.

OECD has defined financial literacy as the combination of consumers and investors understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help and to take other effective actions so as to improve one's financial wellbeing.

(Nye et al, 2013) [6] defines financial literacy as, a measure of the extent to which a person understands basic financial concepts and possessing the ability to manage ones finances confidently by making sound and appropriate short term financial decisions, in a long-range perspective of financial planning, taking care of different economic situations and life events.

A financially literate person will possess the basic knowledge of some key financial concepts (OECD, 2013) [7]. Therefore, financial knowledge is termed as a key dimension of financial literacy and most of the time it is considered as a synonym of financial literacy. Various researchers have conceptualised the term financial knowledge considering different content areas. (Huang, 2013) [8] Considered financial knowledge as an individual understands of financial concepts.

Personal finance is everything to do with managing your money, saving and investing. It covers budgeting, banking, insurance, mortgages, investments, retirement planning, tax planning and estate planning. It often refers to the entire industry that provides financial services to individuals and households, and advises them about financial and investment opportunities.

1.2 Personal Financial Management

Financial experts agree that while people have much more money today than they did generations ago, the amount of knowledge on how to manage that money hasn't kept pace not at all (Maura Fogarty, 2012) [9]. Taking charge of planning and managing our finance and putting it into implementation is very important for every individual. This is not only to set up our household budget but also to save for the future as well as plan for our retirement and invest for our better future. This is also important as every individual would like to live debt free and not going through stressful life, working until our old age just to survive and educate our children. Every human being should have this awareness and know the importance of their financial planning and management.

In other words, Personal financial management is a key component to making our money work for us. This requires planning. Planning is the process of making a proper lay down procedure of doing things and following them to achieve the expected objectives or targets. Financial planning is an evolving plan that changes as we grow in our career path and move on in our life stages, it is a plan that needs to be reviewed as the circumstances change; for example getting married, buying a house and raising family. As our life goals and financial status changes, we will have to actively review our financial plans to see if we will be able to achieve the financial goals within the given time line.

1.3 Role of IT sector in Kerala

Kerala, one of the federal states of India, is a region known for its high levels of achievements in education, healthcare and social justice. Kerala, known far and wide as 'God's own Country', is a unique state that achieved many distinctions of all-round improvements in the social sector. Despite low per - capita income, the state's achievements in literacy, education, health, etc. are comparable to some of the developed countries. In line with global trends, the government of Kerala formulated an Information Technology (IT) policy in the year 1998. The policy aims at increased application of IT in all walks of life, encasing the IT industry base, creating a robust state information infrastructure and creating human resources for IT. Information Technology (IT) is the world's fastest growing economic activity. The IT industry has been found to be ideal for Kerala in terms of its potential to generate opportunities and employment with little pressure on land, environment and other resources. For Kerala, IT is not only as a tool for improving governance and creating more jobs, but more significantly, as a means to greatly enhance the standard of living of the people. Kerala has also succeeded in strengthening the TECHNOPARK and setting up of Software Technology Parks and Software Complexes in major cities in the State.

1.3.1 InfoPark Kochi

INFOPARK has ambitious plans to become one of the major IT Park clusters in the country. Ever since its inception in 2004, INFOPARK is well known among the IT/ IT's investors for its potential and is currently expanding to new locations in Cherthala and Koratty. INFOPARK is an IT Park situated in Kakkanad, in the

city of Kochi, India. INFOPARK Phase I is spread over a 101 acre campus with more than 3,200,000 sq. ft. of built up area, housing over 80 companies which employ around 17,000 professionals. Here the research pertains only from the IT employees of Infopark.

II. IMPORTANCE OF THE STUDY

This study will assist to create better understanding and appreciation in the field of financial literacy and financial management by employees of financial institutions. Households will be able to use resources more effectively, for instance, by choosing the financial services and products that best meet their needs and shift from reactive to pro-active decision making. They will also be able to make informed decisions to budget, save and borrow carefully thus enhance their financial stability, ability to plan for the future and family welfare.

III. OBJECTIVES OF THE STUDY

1. To study the general accountability of financial literacy on personal financial management.
2. To review the effect of financial literacy on personal financial management of IT employees in Kerala.
3. To ascertain the attitude of the respondents towards various personal financial management.
4. To analyse the effect of financial literacy on personal financial management of selected respondents.
5. Finally to offer valuable suggestions to minimise the risk on personal financial management of the employees in IT sector on the basis of findings of study.

IV. HYPOTHESIS OF THE STUDY

Hypothesis means, it is a tentative solution to a particular problem. Here the hypothesis is stated on the basis of liabilities and debt management practices of the respondents. It is stated as follows.

H₀: IT employees have a better liabilities or debt management practices

H₁: IT employees does not have a better liabilities or debt management practices

V. RESEARCH METHODOLOGY

The study is mainly descriptive in nature based on primary and secondary data. Descriptive research is used to describe characteristics of a population or phenomenon being studied. The characteristics used to describe the situation or populations are usually some kind of categorical scheme also known as descriptive categories. Descriptive research generally precedes explanatory research.

5.1 Sampling Technique

In the first stage, out of the major IT parks district in Kerala, Ernakulam (Cochin) have been selected purposefully for the detailed study. Cochin is considered as the 'Heart of Kerala' and first fully literate district also. In the case of number of employees in total, highest numbers of IT employees were working in Ernakulam. Here IT employees in Infopark, Ernakulam have been selected for the study. *In the second stage*, list of companies in Infopark was collected and by applying the lottery method 4 companies having highest number of employees was selected. *In the third stage*, the companies were identified and selected. *In the fourth stage*, 50 employees each were selected from each company by applying non probability sampling techniques.

5.2 Data Collection

Both primary and secondary data were used for the study. The primary data was collected by using section wise structured questionnaires. Questionnaire was divided into four parts. The first section deals with general information of the respondents; second section considers the financial decision of the employees, in the third section, to assess the financial literacy awareness assessment of the respondents, fourth section deals with risk attitudes and investment intention and finally in the last section to assess the personal financial management of the employees. The study uses secondary data to support and substantiate primary data and also to form a strong theoretical base. The data was collected through various magazines, books, published research articles, dissertations, websites, etc.

5.2.1 Pilot Study

Questions were pretested using cronbach's alpha test and results obtained were higher than 0.7 and questionnaire was finalised. Based on the primary observation it was understood that a research would be possible in the area. The pilot study helped the researcher in finalising the sample and also the variables to be studied. Primary data was collected from the selected respondents of InfoPark, Ernakulam.

5.3 Data Analysis and Interpretations

Analysis means a critical examination of the assembled and grouped data for studying the characteristics of the subject under study and for determining the pattern of relationships among the variables relating to it. Analysis was done using SPSS software and MS Excel. To show the distribution of the respondents by each of the pertinent variables like gender, age, social class, income level etc, averages, and percentages are used.

5.3.1 Data Validity

The research instrument was pre-tested on 30 employees of Info Park, Kochi, who were not part of the sample of respondents to establish its validity. This facilitated revision and modification of the instrument thereby enhancing validity. Cronbach’s Alpha was used to test the reliability of the research instrument.

Reliability Statistics

Cronbach's Alpha	No of Items
.808	15
.932	30
.764	13
.882	25

The value obtained in the table is higher than the Alpha value of 0.7. Since the value was higher than 0.7 the instrument was deemed reliable. After pilot study the main survey followed.

5.3.2 Employment Type

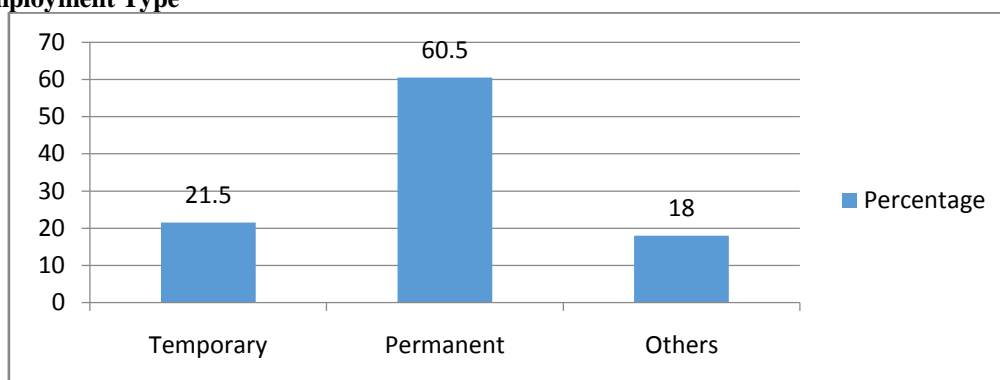


Figure showing the distribution of respondents based on employment type

Out of the total respondents, 60.5per cent are permanent, 21.5per cent is temporary and 18per cent is on contract basis; i.e. other category. Contractees were less concerned about their financial literacy and therefore were not taking measures to improve their personal financial management such as investing, saving, taking insurance covers, planning for retirement and budgeting.

5.3.3 Spending Pattern of the Respondents

Activity for which respondents spent more	Percentage	Rank
Family	42	1
Food	25	2
Clothing	18	3
Rent	8	4
Education	5	5
Others	2	6
Total	100	

In order to find out the activities for which the respondent spent more 6 variables were selected. From the above table, it was found out that the majority of the respondents spending more for family and one reason behind this is about 52per cent of the respondents are married. After family, food is the area where respondents spend more. Third priority is given to clothing. Rent or hostel comes in the fourth category and education and others come under the last two activities.

5.3.4 Financial Education and Financial Knowledge of respondents in making Financial Decisions

Financial knowledge allows an individual to make effective decisions with all of their financial resources. It is the awareness and understanding of financial concepts and procedures which help them to solve financial problems.

In order to find the most influential source of financial education, respondents are asked to rank their choice from 1 to 5. These ranks are then converted into score by assigning score of 5 for rank 1, 4 for rank 2 and so on. Based on this score the weighted mean for each of the choice and the final ranks are assigned based on this.

Sources of Information	Mean Score	Rank
Parents	4.05	1
Personal experience	3.22	2
Friends / Colleagues	3.2	3
College / University	2.35	4
Personal readings/ Seminars/ Workshops/ Classes	2.3	5

The result of the analysis exhibited in above table shows that, parents are the highly influencing source for taking financing decisions followed by their own personal experiences. Friends and colleagues are the 3rd factor. College or educational institutions stands only in the 4th position. Personal readings/ Seminars/ Workshops/ Classes are the least influencing factors for taking financial decisions.

5.3.5 Personal Financial Planning

Planning is deciding in advance what is to be done and in what manner. Personal financial planning is the process of developing a roadmap for a person's well being and also to reduce risk. In order to assess the personal financial planning practices adopted by the IT employees the following questions were asked and on the result of the responses collected are shown in the table below.

CODE	PARTICULARS	YES	per cent	NO	per cent
PPF1	Establishing an adequate financial record keeping system	40	20	160	80
PPF2	Developing a sound yearly budget of expenses and income	45	22.5	155	77.5
PPF3	Minimising taxes and insurance expenses	30	15	170	85
PPF4	Preparing plans for future financial needs and goals	100	50	100	50
PPF5	Examining your investment portfolios to maximise returns	75	37.5	125	62.5

Out the total employees 20per cent of them does not have an established and adequate financial record keeping system while 20per cent have such habit. Only 45 respondents (22.5per cent) develop a sound yearly budget of expenses and income while majority of employees hesitate to keep budgets yearly. In order to minimise taxes and insurance expenses 85per cent of the respondents does not take any measures while 15per cent gives importance for this. It showed a neutral opinion in preparing for future financial needs and goals. 50 per cent of employees work on it, while 50per cent ignores it. 37.5per cent of the respondents examine their investment portfolios to maximise returns while 62.5per cent are not interested on it.

It is clear that majority of the IT employees does not have a clear personal financial planning and they are less interested in the investment activities. So it can be concluded that IT employees has less knowledge in personal financial planning and they have to concentrate more in the aforesaid area.

5.3.6 Liabilities or Debt Management Practices

In order to test the frequency of liabilities and debt management practices four variables were selected and a five point scale starting from 'Never' to 'Always' was used. Following hypothesis was framed.

H₀: IT employees have a better liabilities or debt management practices

H₁: IT employees does not have a better liabilities or debt management practices

The hypothesis has been tested by using per centage and the results are given below.

STATEMENT	Never	Seldom	Sometime	Most of the time	Always	Total
I pay off the full credit card outstanding amount every month to avoid financial charges	121	09	08	22	40	200
I have to use credit card whenever I do not have enough money in bank or cash to meet my monthly commitments	119	33	36	05	07	200
I pay mortgage and hire purchase instalments on time every month	57	12	14	16	101	200
I take up personal loan at least once a year to pay off other debts	108	42	36	05	09	200
PER CENTAGE	50.625	12.00	11.75	6.00	19.625	

- **Paying off the full credit card outstanding amount every month to avoid charges:** In case of the first variable that is paying off the full credit card outstanding amount every month to avoid charges 121 respondents stated they never have such a habit while 40 respondents have the same. 22 respondents pay it most of the time while 9 employees do it seldom. 8 respondents are having a opinion seldom.
- **Using credit card whenever do not have enough money in bank or cash to meet my monthly commitments:** Out of the 200 respondents 119 respondents stated that they never spend if they don't have enough cash or money while 36 employees uses it seldom and 33 respondents sometimes uses it. 5 respondents use it most of the time and 7 employees always use the facility.
- **Pay mortgage and hire purchase installments on time every month:** On the basis of the response collected 57 employees always make default in paying debt while 12 make it seldom and 14 respondents sometimes. More than 50per cent of the employees never make a default in the payment of mortgage or hire purchase agreement.
- **Take up personal loan at least once a year to pay off other debts:** In case availing personal loans at least once in an year to pay off debts, 108 employees never adopt such facility. 42 employees avail it seldom and 36 sometimes. 5 employees avail it most of the time and 9 employees always use this method.

The above table clearly states that, IT employees are having better liabilities or the debt management practices as the majority of the employees never make use of the debt instruments in a month as well as avail loans in a year. The response displays that (50.625 + 12) **62.625 per cent** of employees never or seldom use the credit cards or avail loans.

Thus null hypothesis can be accepted that the "IT employees have a better liabilities or debt management practices."

5.3.7 Investment Plan

Investment planning is the process of matching financial goals and objectives with financial resources. Investment planning is a core component of financial planning. It is impossible to have one without the other.

	Very clear	Clear	Undecided	Not Clear	Not at all clear	Total
Investment plan	10	145	35	5	5	200
Per centage	5	72.5	17.5	2.5	2.5	100

In case of investment plan 73 per cent of the IT employees have a clear investment plan. 17 per cent undecided about investment plan. About 5per cent of the employees have a very clear investment plan while 5 per cent of employees are not at all clear about investment.

VI. CONCLUSION

Financial literacy plays a pivotal role in today's complex financial scenario. It is an essential component for the empowerment of all categories of people as it gives them an understanding of how to manage their finances in the real economy in order to avoid unnecessary hardships, excessive debt and possible financial exclusion. Moreover, it enables people to improve their understanding of the financial opportunities that the formal financial market offers to them.

The study also sought to establish effects of gender, age, level of education, savings and investment plan index on personal financial management. The findings conclude that these factors strongly influenced the personal financial management. The study findings further sought to establish whether saving and investment plans affects personal financial management. The results conclude that majority of the respondents save less proportion of their salaries. This can be attributed to the high cost of living hence their investments are financed through loans.

It can be concluded that it is very important for every individual to plan and manage their personal finances in order to lead a happy life. It is important for every individual to have personal financial plan in order to meet their financial goals and obligation, help to retire in comfort, achieve financial freedom, make rational financial decisions and take advantage of every financial opportunity. We are all not born with these knowledge, so it should be everyone's responsibility to learn the strategies to plan and manage our personal financial as this does not only help to lead us to a happy life but also contribute to the development of the nation in the long run.

VII. SUGGESTIONS

Financial literacy shows a significant impact on investment intentions and can influence financial decisions, however, financial literacy can only ensure that individuals are informed and empowered to make financial decisions. It cannot ensure that 'right' decision is actually made, because, individuals do not always make decisions based purely on economic rationality. Personal circumstances and social factors which are beyond the control of an individual are also considered while taking the decisions. Thus financial literacy and its effect on personal financial management is very important in the life of all category of people.

- Financial education should be imparted to people at an earlier stage in the life cycle of people so that the habit of savings and proper money management and investment is ingrained into their minds right from their childhood. Thus, financial literacy would ensure that individuals are informed and empowered to make better financial planning and ensure financial security.
- Financial education should be given to college students as there is a low level of literacy prevalent amongst them. Due to lack of financial literacy, they may misallocate the private wealth, which may restrict them to achieve their financial objectives in long run. Since college students are the most vulnerable to be trapped in debt, Policy makers can design financial education material focused on Personal finance.
- Financial literacy programmes seminars, workshops, etc can be conducted. As the level of financial literacy is found to be different among people with different demographic and socio-economic characteristics with women, low income groups, less educated, lower age group depicting less knowledge. So, this should be considered while deciding the content of the program or the campaign. It is recommended that these groups should be provided financial education and encouraged towards participating in financial planning.
- One of the important things which can help in converting savers into investors is to create awareness among the potential investors about various financial matters and the benefits of financial knowledge.
- Various financial literacy training programs for their employees aimed at closing any knowledge gaps. The training should be complemented by promotion of a savings and investment culture among their employees.
- The Government of Kerala should have a State financial literacy strategy that should include retirement planning. The strategy should aim to equip Keralites with lifelong understanding of personal financial management matters and should be made in consultation with all the relevant stakeholders (business, government and non-governmental organizations).

VIII. LIMITATIONS OF THE STUDY

- All the sectors of the personal financial management are not considered for the study.
- The sample size of the respondents is limited due to constraints of time, money and energy.
- The period of study is limited so that, the entire population of the state was not taken into consideration.

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