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Financial Behaviour Of Working People Influenced By Financial Literacy And Financial Self-Efficacy: A Sem Approach

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Abstract
The objective of this study is to examine the relationship between financial literacy, financial self-efficacy, and financial behaviour of the respondents who are working in the private sector. In this study, the social cognitive theory is used to provide the basis for establishing relationships among the variables. Data was collected through a questionnaire using an online mode and the questionnaire was adapted from previous literature. Data from 165 respondents were received, out of which 129 were usable. We use PLS-3 for analysis purposes, in which we run CFA and SEM as statistical tools to analyze the data. The result of the study says that financial literacy is positively related to financial self-efficacy and financial behaviour, and financial self-efficacy acts as a mediation variable between financial literacy and financial behaviour. Financial self-efficacy mediates through competitive mediation between the two variables.

Keywords: Financial Literacy, Financial Self-Efficacy, Financial Behaviour, Working in the Private Sector.

1. Introduction

The ability to manage personal finances efficiently is an important and unavoidable concern that is increasing with the increasing complexities of the financial world. People face many unfavorable situations due to improper or negligence of personal finances (Singh et. al., 2019). In the previous literature, we found that only knowledge or education is important for positive financial behavior, but some psychological factors have an influence on their decisions and behaviour as well (Kusairi et al., 2020). The knowledge and education part is limited up to the learning part. The actual application of that learning completely depends on the individual's psychological factors such as self-efficacy. This study tries to identify the relationship between knowledge and information in the presence of psychological factors.

Financial behaviour is nothing but the reaction of the individual towards his or her financial situation. It is the outcome of knowledge and control over the emotions of an individual and making responsible decisions (Wijaya et al., 2019). The financial performance of an individual is somehow affected by their literacy level and confidence to behave with certainty. Certainty in financial behaviour means getting money and using it in a way that matches the real buying power of that money and gives you the same amount of utility or more.

1.1. Social Cognitive Theory

This theory specifically focuses on the characteristics of human beliefs and how those beliefs change their lives positively. According to this theory, people who regularly develop themselves know how to control their emotions and behaviour to act wisely (Hust, 2003). This theory follows some assumptions, including goal direction. According to this assumption, the behaviour of the individual is based on the goal he/she has defined for themselves. The second assumption is based on self-regulation, which means individuals observe their own behaviour and modify it according to their needs or expectations. The third assumption talks about reinforcement and punishment, which come from learning and adopting new behaviors. Individuals learn new behaviours by observing the positive or negative behaviour of others while they act in a particular way to achieve their goals or tasks, which is also called vicarious experience (Bandura, 1997). Many studies say people change their behaviour after getting financially literate. They make budgets for their money and behave accordingly to achieve their financial goals in the future (Njehia, 2014).

People with a high level of belief and confidence in their capability to work enough to achieve their goals. They are ready to learn more and explore challenging tasks that improve themselves. This theory explains the cognitive process of humans through motivation to achieve stimuli by going through different experiences that produce satisfaction with their success (Bandura, 1999). Self-efficacy is the psychological factor that affects human behaviour, whether positive or negative. It is the individual's judgement and belief that they have the ability to achieve the desired goals through their performance (Bandura, 1994). Many researchers discovered that people with a high level of self-efficacy set difficult goals for themselves, which motivates them to improve their skills and reach new heights (Krueger and Dickson, 1994; Reed, 2012). Another study found that people with high self-efficacy like to take on difficult and risky tasks to challenge themselves and achieve a new version of their own abilities.

2. Literature Review

Financial literacy is the knowledge and understanding of financial products and services to be used in the best manner to fulfill an individual's needs or desires (Servon and Kaestner, 2008). It provides the individual with the skills to understand the concepts and processes of the financial market (Mudzingiri et al., 2018). It is regarded as an important tool that aids in closing the information gap that exists between people. Previous research says that financial literacy is the antecedent of various solid financial behaviours and financial practices (Lusardi and Mitchell, 2014). Financially literate people search for additional knowledge and information to improve their financial behaviour (Braunstein & Welch, 2002).

Financial self-efficacy is the belief of the individual to be capable of having the required abilities to achieve his or her financial goals. The theory of self-efficacy (Bandura, 1994) explains the relationship between the given behaviour of the individual and the expected outcome. The outcome is the individual's estimated ability to act in a certain way, which manipulates his or her behaviour to achieve the desired or estimated outcome. Financial self-efficacy is the conviction that an individual can execute the desired financial behaviour to produce the planned or expected financial goals. Various behavior-based studies have discovered that education skills alone are insufficient to induce positive behaviour in an individual. Education and knowledge are limited to the understanding part only, but there are some emotional factors that influence financial decisions, and are capable of handling complex financial matters wisely (Atkinson and Messy, 2011).

H1: Financial literacy has a significant and positive effect on the financial self-efficacy of individuals working in the private sector.

The level of financial literacy has a direct or indirect impact on an individual's financial behaviour such as saving, budgeting, and debt borrowing (Lusardi and Mitchell, 2008). The level of financial literacy has a direct and important impact on the positive and responsible behaviour of the individual while controlling other factors. Many researchers say that individuals who have taken any kind of financial education or training behave responsibly in the form of debt management, planning for retirement, investments, and managing finances confidently (Bhattacharjee, 2014).

H2: Financial literacy has a significant and positive effect on the financial behaviour of individuals working in the private sector.

Experiencing confidence in terms of financial context is the main element of financial behaviour. It is the emotion of the individual to be capable and trust the skills to handle the complicated financial situation. When talking about self-efficacy, it means the individual belief that they can achieve their goals after completing difficult tasks (Lown, 2011). More studies are required to understand why some people achieve their financial goals easily while others face financial crises in the presence of other economic factors. This study is trying to find out the influence of financial literacy on financial self-efficacy and financial behaviour.

H3: Financial self-efficacy has a significant and positive effect on the financial behaviour of individuals working in the private sector.

H4: Financial Self-Efficacy Has a Mediating Effect on Financial Literacy and Financial Behavior.

3. Research Methods and Findings

3.1. Data Collection

The unit of this study was working people in the private sector in Gurugram. The study managed to receive 165 responses from the respondents, and 129 were useful for conducting further statistics. The received data was checked for missing values, and only completed responses were taken after removing the outliers for the study. From 129 respondents, 81 (62.8%) were male and 48 (37.2%) were female.

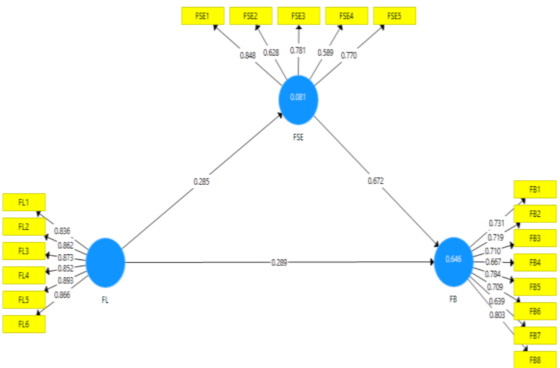
Table-1 Sample Descriptive

Age	N	Gender	N	Education	N	Income	N
25-29	33	Male	81	High School	14	0-2.5 Lacs	21
30-34	35	Female	48	Graduation	52	2.5 – 5 Lacs	38
35-39	33			Post-Graduation	49	5-7.5 Lacs	27
40-44	19			Ph. D	6	7.5-10 Lacs	22
45 & Above	9			Professionals	8	10 Lacs & Above	21
Total	129		129		129		129

In this study, we have included five age groups in the study, which included 33 (25.6%) respondents from the age group 25 to 29. 35 (27.1%) respondents were between the ages of 30-34. 33 (25.6%) respondents were from the age group 35-39. 19 (14.7%) respondents are from the age group 40-44, and 9 respondents are from the age group 45 (7%) and above.

In this study, the educational background of the respondents was also divided into five categories. 14 (10.9%) respondents have completed senior secondary as their highest qualification in terms of education. 52 (40.3%) respondents graduated, and 49 (38%) respondents completed post-graduation as their highest qualification. 6 (4.7%) respondents had a Ph. D degree as their highest qualification, and 8 (6.2%) respondents had other professional degrees as their highest qualification. In the demographic characteristics, we have considered the annual income of the respondents.

3.2. Conceptual Model



The above model shows the factor loading of each item taken in the study for every factor. Only those items that fulfilled the criteria of CFA were included in the study. According to the model, financial literacy has five statements or items, financial self-efficacy has five items, and financial behaviour has eight items, which were retained for further measurement and structural model.

3.3.2. Measurement Model Results

For the analysis part, Smart-PLS-3 was used in the absence of distributional assumptions of the data (Hair et al., 2019; Hair et al., 2012b; Nitzl, 2016). PLS-SEM is an opportunity for researchers in social sciences to work on non-normal data. It is also beneficial to the researchers when the sample size is small. Hair et al., 2012b) is acceptable if the average variance explained is more than 50 %. In the above table, all the factor loadings meet the criteria and more than.5. For further calculations, only those items were retained that fulfilled the confirmatory factor analysis assumptions.

3.3.1. Confirmatory Factor Analysis Results

Table-2 Composite Reliability and AVE

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
FB	0.869	0.876	0.897	0.521
FL	0.932	0.942	0.946	0.746
FSE	0.779	0.825	0.849	0.533

Confirmatory factor analysis follows four assumptions to measure the outer model of the study. The first assumption is a factor loading of 0.7 for the item to retain, but if this assumption does not meet the requirement, then the average variance explained should be at least 0.5 to retain the item, which is the second assumption for CFA (Hair et al., 2019; Hair et al., 2012b; Nitzl, 2016). The third assumption is that composite reliability should be at least 0.7. This assumption is also fulfilled. The last assumption is discriminant validity, which can be checked through HTMT.

Table-3 HTMT

	FB	FL	FSE
FB			
FL	0.502		
FSE	0.87	0.308	

Bootstrapping is used to get the values for the heterotrait-monotrait ratio (HTMT). The HTMT ratio shows that every factor is different from other factors, or they do not have any kind of correlation. It is the mean value of the correlation of the items across constructs that is relative to the mean of the average correlation for the items measuring the same construct (Henseler et al., 2015). The upper threshold value for discriminant validity is.85 and our results are lower than this value, which supports the presence of discriminant validity (Henseler et al., 2015).

3.3.2. Structural Model Results

Table- 4 Reflective model assessment

INNER	FB	FL	FSE	OUTER	VIF
FB				FL1	2.621
FL	1.089		1	FL2	1.851
FSE	1.089			FL3	1.296
				FL4	1.568
				FL5	1.29
				FL6	2.825
				FSE1	1.677
				FSE2	1.828
				FSE3	1.782
				FSE4	3.39
				FSE5	1.717
				FB1	1.587
				FB2	2.205
				FB3	1.794
				FB4	3.236
				FB5	1.531
				FB6	2.18
				FB7	3.337
				FB8	2.65

After a satisfactory assessment model, next we need to evaluate the structural model. The standard assessment criterion includes six things, which are VIF value, R^2, Hypothesis testing, F^2, Q^2, and SRMR. The VIF is used to show the collinearity issues among predictor constructs. If the VIF value is more than 5 (Hair et al., 2017b), the problem of collinearity exists and all VIF values for the items and factors are less than 5.

Table-5 R^2 value

	R Square	R Square Adjusted
FB	0.646	0.64
FSE	0.081	0.074

Once the collinearity is checked, the next step is to check the R^2 value. It is checked for the endogenous or dependent variable. R^2 measures the variance in each exogenous variable, which is the explanatory power for the model. It simply shows the prediction of the model through endogenous variables. The range is from 0 to 1, and the higher the value, the greater the prediction power. The value of R^2 is divided into three categories as a guideline to follow; they include 0.75, 0.50, and 0.25. Values of 0.75 or more mean the exogenous variable substantially predicts the model. 0.50 moderately predicts the model, and 0.25 has weak power to predict. Prediction power is the generalizability of the same model to other populations. The R^2 value is relevant to the context of the study and the number of constructs (Henseler et al., 2009; Hair et al., 2011).

F^2 is the next criteria to check how important particular endogenous variables are in a particular model. If any exogenous or independent variable is removed from the study, how would the R^2 value change and what difference would take place in the model? The next thing we need to consider is Q^2. This metric is achieved by blindfolding. We remove every fifth point from the mean and estimate the model parameters. Q^2 combines the aspects of out-of-sample prediction and in-sample explanatory power. As per the rule or guideline for Q2, the value for the endogenous or dependent variable should be more than zero for a specific dependent variable to indicate the predictive accuracy of the particular structural model. H2 values range from 0, 0.25, and 0.50, which depict small, medium, and large predictive power in the structural model (Henseler et al., 2015; Hair et al., 2019). In our results, the Q^2 value is 0.316 for financial behavior, which is the dependent variable of our study. The last and final point to mention is the SRMR value, which is used to test the model's generalizability on the population from which the sample was drawn. A value of less than 0.10 is considered a good fit. In our model, the SRMR value is 0.086, which is acceptable and the model can be generalized to people working in the private sector.

Table-6 Hypothesis test

TDE	Original Sample (O)	Sample Mean (M)	Bias	2.50%	97.50%
FL -> FB	0.289	0.289	-0.001	0.193	0.375
FL ->FSE	0.285	0.295	0.01	0.117	0.412
FSE->FB	0.672	0.676	0.004	0.557	0.733

The above table shows the total direct effect, which shows the results of hypotheses created with the help of a literature review.

H1: Financial literacy has a significant and positive effect on the financial self-efficacy of individuals working in the private sector.

Accepted as the value of the above table supports the hypothesis that financial literacy has a significant and positive effect on the financial self-efficacy of individuals working in the private sector.

H2: Financial literacy has a significant and positive effect on the financial behaviour of individuals working in the private sector.

H2: Accepted because the values in the table above support the idea that financial literacy has a big and positive effect on how people in the private sector handle their money.

H3: Financial self-efficacy has a significant and positive effect on the financial behaviour of individuals working in the private sector.

Accepted as the values in the above table support the hypothesis that financial self-efficacy has a significant and positive effect on the financial behaviour of individuals working in the private sector.

H4: Financial Self-Efficacy Has a Mediating Effect on Financial Literacy and Financial Behavior.

H4: is accepted as the total direct effect of financial literacy on financial behaviour in the absence of financial self-efficacy was 0.508 and after introducing financial self-efficacy, the total effect increased to 5.88. This means that financial self-efficacy mediates financial literacy and financial behaviour. Now which type of mediation is there? The total effect was .480 while the indirect effect was .191 to calculate the VAF value, we divided the indirect effect by the total effect and we got .397 or 39.7% percent, which means it’s a case of partial mediation. There are two types: complementary and competitive.

4. Conclusion

The aim of this study was to check the relationship between financial literacy, financial self-efficacy, and financial behaviour of the individuals working in the private sector in Gurgaon. Results of the study: after doing all the analysis, we found that financial literacy, financial self-efficacy, and financial behaviour have a positive and significant relationship. On the other hand, financial self-efficacy partially mediates between financial literacy and financial behaviour, and further, it is a competitive type of mediation role played by financial self-efficacy.

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