

A Study Assessing the Effect of Financial Knowledge on Investment and Financial Planning Decisions of Employees

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Abstract:

Financial knowledge plays an important role in shaping employees' investment and financial planning decisions. In today's complex financial environment, individuals need adequate understanding of financial concepts to manage their income, savings, and investments effectively.

This study examines the effect of financial knowledge on financial decision-making using primary data collected through a structured questionnaire. The analysis focuses on areas such as investment, savings, budgeting, insurance, and retirement planning.

The findings indicate that employees with higher financial knowledge make more informed decisions, practice better financial planning, and show greater financial stability. In contrast, those with limited knowledge face difficulties in managing finances and making investment choices.

The study concludes that improving financial knowledge is essential for enhancing financial well-being and promoting effective financial planning among employees.

Keywords:

Financial Knowledge, Investment Decisions, Financial Planning, Financial Literacy, Employee Behaviour, Saving, Risk and Return, Financial Awareness, Retirement Planning, Financial Stability

I. INTRODUCTION

Financial knowledge is a fundamental skill that enables individuals to understand and effectively apply financial concepts in managing their personal finances. In today's rapidly changing economic environment, employees are increasingly exposed to a wide range of financial products and services, making financial decision-making more complex than ever before. Sound financial knowledge is essential for making informed choices related to investment, savings, insurance, and retirement planning. Without adequate financial understanding, individuals may face difficulties in selecting appropriate financial instruments, leading to poor financial outcomes and increased financial stress.

Financial understanding influences their ability to make rational investment choices and adopt

effective financial planning practices. The study is based on primary data collected through a structured questionnaire administered to employees belonging to different age groups, income levels, and work experience. A quantitative research approach is used to analyze the relationship between financial knowledge and financial decision-making behaviour.

The findings of the study indicate that employees with higher levels of financial knowledge are more confident and proactive in managing their finances. They demonstrate better awareness of various investment options such as stocks, mutual funds, and fixed deposits, and are more capable of evaluating risk and return associated with different financial instruments. These individuals are also more likely to engage in systematic financial planning, including regular saving, budgeting,

maintaining emergency funds, and planning for long-term goals such as retirement. In contrast, employees with limited financial knowledge tend to rely on informal sources of information and may exhibit hesitation or uncertainty in making investment decisions, which can result in suboptimal financial outcomes.

Furthermore, the study highlights that financial knowledge significantly contributes to improving financial stability and reducing financial stress among employees. It enhances their ability to handle unexpected financial situations and supports better financial discipline. The results emphasize the importance of promoting financial education programs within organizations and educational institutions to strengthen employees' financial capabilities. Employers and policymakers can play a crucial role in providing financial literacy initiatives that equip individuals with the necessary skills and knowledge for effective financial management.

Objectives

Primary Objective

- To examine Assessing the Effect of Financial Knowledge on Investment and Financial Planning Decisions of Employees.

Secondary Objectives

- To assess the level of financial Competence among employees.
- To analyze employees personal financial planning practices (savings, budgeting, investment, insurance, retirement planning).
- To examine the relationship between financial knowledge and financial decision-making behaviour.
- To evaluate whether financially literate employees demonstrate better financial planning behaviour.
- To identify factors influencing financial planning behaviour among employees.

Review of literature

Financial knowledge has become a critical factor in understanding individuals' financial behaviour, particularly in relation to investment and financial

planning decisions. Research by Xiao J. J. and Porto N. (2017) found that financial education significantly improves financial satisfaction through the mediating effects of financial literacy and behaviour. The study emphasized that individuals with higher financial knowledge are better equipped to manage their finances, leading to improved financial well-being. These findings highlight the importance of financial education in shaping responsible financial behaviour among employees.

The effectiveness of financial education programs has also been widely studied in recent years. Kaiser T. and Menkhoff L. (2020) conducted a meta-analysis and concluded that structured financial education programs positively influence financial knowledge and behaviour. Their findings suggest that early financial education can enhance individuals' ability to make informed investment and financial planning decisions. This underscores the need for integrating financial education into academic and workplace settings.

In the context of developing economies, financial literacy plays a vital role in promoting financial inclusion and improving financial decision-making. Morgan P. J. and Trinh L. Q. (2020) found that financial literacy significantly affects saving behaviour, investment participation, and financial inclusion. The study highlighted that factors such as income, education, and access to financial services influence financial knowledge levels. These findings indicate that improving financial literacy can lead to better financial outcomes and economic stability.

Further research by Tavares F., Almeida L., and Cunha C. (2021) analyzed global trends in financial literacy research and emphasized its growing importance in shaping financial behaviour. The study identified that financial literacy is closely linked to investment awareness and financial planning practices, reinforcing its role in enhancing financial decision-making across different populations.

Recent studies (2024–2025) further highlight the growing significance of financial knowledge in influencing investment and financial planning decisions. Aggarwal et al. (2024) found that financial literacy improves individuals' ability to

evaluate financial products and make informed decisions. Similarly, Baveja and Verma (2024) identified financial knowledge as a key factor influencing stock market participation and investment confidence. These findings demonstrate that higher financial literacy reduces uncertainty and encourages active financial engagement.

In addition, Menon (2025) observed that financially literate individuals are more likely to adopt diversified investment strategies and engage in long-term financial planning. Mittal and Gupta (2025) highlighted that financial knowledge significantly improves retirement planning awareness among employees, ensuring long-term financial security. Similarly, Pande et al. (2024) emphasized that financial literacy, along with factors such as risk tolerance and income, plays a crucial role in shaping financial planning decisions among salaried individuals.

Studies focusing on specific employee groups also support these findings. Supraja et al. (2024) found that financial literacy positively influences investment decisions among IT employees, leading to better financial planning practices. Overall, the literature indicates that while financial knowledge enhances financial behaviour and decision-making, gaps in awareness and understanding still exist among individuals.

Collectively, these studies reveal that financial knowledge is a key determinant of investment and financial planning decisions. While increasing financial literacy leads to improved financial behaviour and stability, challenges such as lack of awareness and limited access to financial education continue to affect decision-making. The literature highlights the need for effective financial education programs, awareness initiatives, and institutional support to strengthen financial knowledge and promote better financial outcomes among employees.

Research Methodology

- Research Design

This study adopts a **descriptive research design** to examine the effect of financial knowledge on investment and financial planning decisions of employees. The

descriptive approach is appropriate as it helps in understanding and analyzing the relationship between financial knowledge and financial behaviour.

- Data Collection

The research is based on **primary data**, which was collected through a structured questionnaire. The questionnaire was designed to capture information related to respondents' demographic profile, level of financial knowledge, and their investment and financial planning practices.

- Sample Size

A total of **107 respondents** were selected for the study. The respondents were chosen using a **convenience sampling method**, as it allows easy access to participants and facilitates timely data collection. Sampling Method

Convenience sampling method was used to select the respondents.

- **Tools Used for Data Analysis**

- **Percentage Analysis:**

Percentage analysis was used to describe the demographic characteristics of respondents and to present the distribution of responses in a simple and understandable form.

- **Chi-Square Test:**

The Chi-square test was applied to identify the association between categorical variables and to determine whether a significant relationship exists between them.

- **Correlation Analysis:**

Correlation analysis was used to measure the strength and direction of the relationship between financial knowledge and financial behaviour.

- **Analysis of Variance (ANOVA):**

ANOVA was employed to determine whether there are statistically significant differences among the means of different groups.

Regression Analysis:

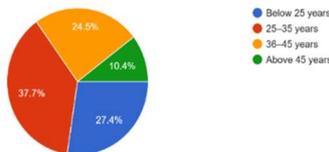
Regression analysis was used to examine the impact of financial knowledge on investment and financial planning decisions and to predict the dependent variable based on one or more independent variables.

Data analysis

Percentage analysis

	frequency	Percent	Valid Percent
Valid Below 25 years	30	27.40%	27.40%
25–35 years	40	37.70%	37.70%
36–45 years	26	24.50%	24.50%
Above 45 years	11	10.40%	10.40%
	107		100.00%

Age
106 responses



Hypothesis

H₀ (Null Hypothesis): There is no significant difference in the age distribution of the respondents.

H₁ (Alternative Hypothesis): There is a significant difference in the age distribution of the respondents.

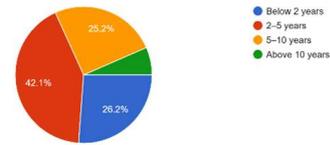
Inference

The analysis shows that **37.7% of respondents belong to the 25–35 years age group**, which is the highest proportion. This indicates that many respondents are **young adults**.

Work experience

	frequency	Percent	Valid Percent
valid Below 2 years	28	26.2%	26.2%
2–5 years	45	42.1%	42.1%
5–10 years	27	25.2%	25.2%
Above 10 years	7	6.5%	6.5%
	107		100.0%

Years of Work Experience
107 responses



Hypothesis

H₀ (Null Hypothesis): There is no significant difference in the years of work experience among the respondents.

H₁ (Alternative Hypothesis): There is a significant difference in the years of work experience among the respondents.

Short Inference

The analysis shows that **42.1% of respondents have 2–5 years of work experience**, which is the highest proportion. This indicates that the majority of respondents have **moderate work experience**.

Coefficients (I understand basic financial concepts such as interest rate and inflation)

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	1.16	.21	.00	5.43	.000
I understand risk	.62	.07	.64	8.48	.000

Correlation

I understand Basic financial concept such as int rate and inflation

Hypothesis

H₀ (Null Hypothesis): Understanding of risk does not significantly influence understanding of basic financial concepts.

H₁ (Alternative Hypothesis): Understanding of risk significantly influences understanding of basic financial concepts.

Inference

The significance value ($p = 0.000$) is less than 0.05. Therefore, the null hypothesis is rejected. This indicates that understanding risk has a significant positive influence on understanding basic financial concepts.

Chi-Square

I regularly Save a portion of my Income

Test Statistics

	Chi-square	df	Asymp. Sig.
Income	13.56	3	.004
iregularlysaveap	37.09	1	.000

Hypothesis

H₀ (Null Hypothesis):

There is no significant association between income and regular saving behaviour.

H₁ (Alternative Hypothesis):

There is a significant association between income and regular saving behaviour.

Inference

From the test statistics, the significance value (p = 0.000) is less than 0.05. Therefore, the null hypothesis is rejected, and the alternative hypothesis is accepted.

This indicates that there is a significant association between income and regular saving behaviours.

Anova

ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Income Between Groups	2.56	4	.64	.69	.597
Income Within Groups	93.91	102	.92		
Total	96.47	106			

Hypothesis (ANOVA)

H₀ (Null Hypothesis):

There is no significant difference between the groups with respect to income.

H₁ (Alternative Hypothesis):

There is a significant difference between the groups with respect to income.

Inference

From the ANOVA table, the significance value (p = 0.597) is greater than 0.05. Therefore, the null hypothesis is accepted, and the alternative hypothesis is rejected.

This indicates that there is no significant difference between the groups based on income.

Findings

The study reveals that financial knowledge has a significant influence on employees' investment and financial planning decisions. Employees with

higher levels of financial knowledge demonstrate better awareness of financial concepts such as risk-return relationship, diversification, and inflation. They are more likely to participate in various investment avenues including mutual funds, fixed deposits, and insurance products.

It is observed that financially knowledgeable employees maintain systematic financial planning practices such as budgeting, regular saving, and maintaining emergency funds. They also show greater interest in long-term financial planning, particularly retirement planning. In contrast, employees with limited financial knowledge tend to rely on informal sources of information and often hesitate to invest due to lack of confidence and fear of risk.

The study further indicates that financial knowledge reduces financial stress and enhances financial stability. Most respondents who possess adequate financial knowledge compare financial products before making decisions and exhibit responsible financial behaviour.

Suggestions

1. Organizations should conduct financial literacy programs and workshops to enhance employees' financial knowledge and awareness.
2. Employers can introduce financial planning support services such as investment advisory and retirement planning guidance.
3. Educational institutions should incorporate financial education into the curriculum to build financial knowledge at an early stage.
4. Government and financial institutions should promote financial awareness campaigns to improve financial inclusion.
5. Employees should be encouraged to seek professional financial advice before making investment decisions.

6. Easy access to digital financial tools and platforms should be provided to improve financial decision-making and planning.

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