European Economic Letters
ISSN 2323-5233
Vol 14, Issue 1s (2024)
http://eelet.org.uk

Financial Self-Efficacy: Mediating Financial Literacy and Investment Behaviour among Private Sector Employees

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Abstract
With the advancement in the world of finance, individuals working at all levels are inclined towards financial self-efficacy. There are huge opportunities of investments in the stock market which if invested by self-informed and financially literate individual can earn handsome returns from their investments. But again, being literate does not guarantee financial literacy and that is why employees find it challenging to make financial decisions on their own. This study evaluates financial literacy and financial investments in stock market by the private sector employees using financial self-efficacy as the mediating variable using Baron and Kenny method of mediation (1986). The study is conducted with a sample of 200 private sector employees from National capital region (NCR), India selected by using simple random sampling method. The result found that there is significant impact of financial literacy on the financial investment decision of the employees in the stock market. The study also found that financial self-efficacy perfectly mediates the association between financial literacy and financial investments in stock market by the respondents.
JEL codes: D14, G11, G41, O16

Keywords: Financial self- efficacy, Stock markets, Financial Literacy, Investments, Mediation, etc.

Introduction

Financial literacy and the ability to make informed financial decisions have become increasingly important in today's complex economic landscape. Numerous studies have emphasized the impact of financial literacy on various aspects of financial decision-making (Lusardi & Mitchell, 2014). However, recent research has suggested that financial literacy alone may not be sufficient to encourage individuals to engage in financial investments (Hung et al., 2016; Ong & Loke, 2017). This raises the question of what other factors may influence investment behaviour. One potential mediating factor is financial self-efficacy, which refers to an individual's belief in their ability to manage financial matters effectively (Bandura, 1977). Financial self-efficacy is playing a crucial part in translating the financial knowledge into action, as individuals with higher levels of self-efficacy may be more likely to apply their financial literacy in practice. This study aims to investigate the mediating role of financial self-efficacy in the relationship between financial literacy and investment behaviour among private sector employees. Understanding the interplay between financial literacy, self-efficacy, and investment behaviour is particularly relevant for private sector employees, who often have access to various investment opportunities through employer-sponsored retirement plans or voluntary savings schemes. However, despite these opportunities, many individuals may not fully capitalize on them due to a lack of confidence or self-efficacy in their financial abilities. By exploring the mediating role of financial self-efficacy, this study seeks to provide insights into the factors that influence investment behaviour and potentially inform strategies to promote greater participation in financial investments among private sector employees. Ultimately, enhancing financial self-efficacy may empower individuals to translate their financial knowledge into action, thereby fostering better financial decision-making and long-term financial well-being.

Literature Review

Financial literacy is required to have a thriving life. Proper management of finances supports high financial literacy and is anticipated to increase the standard of living. As Khawar and Sarwar (2021) examine the financial literacy and financial behavior with the mediating effect of family financial socialization in the financial institutions and found that there is no dissimilarity in the financial variables of socio-economic gatherings and family socialization shows partial mediation between financial literacy and financial behavior. Mulasi and Mathew (2021) studied the role of financial literacy in predicting financial behavior and found that there is a positive moderate correlation among the financial literacy and financial behavior and suggest that financial literacy is important in sharpening the financial behavior of investor and helps in strengthening financial self-efficacy. Ali and Marwat (2021) found that financial literacy is positively associated with the saving behavior. They also observed that financial literacy has significant impact on the self-efficacy, and it increases individual’s confidence in taking financial decisions. Chong, Sabri, Magli, Rahim, Mokhtar, and Othman (2021) studied about effects of financial literacy, self-efficacy, and self-coping on financial behavior of emerging adults using Pearson correlation and multiple regression. found that self-efficacy is the stronger determinant then financial literacy and self-coping in the financial behavior model. Noor, Batool and Arshad (2020), they have examined the role of financial literacy and financial self-efficacy of behavior of individual and found that individual financial literacy does not shows positive impact on the individual account ownership model, and the found the positive answers in account of socio demographic variables like gender, marital status, education, occupation on the individuals' account ownership behavior in the country of Pakistan. Bari, Yunanto and Shaferi(2020) found that financial literacy has a significant impact on the financial management behavior using Moderated Regression Analysis and Performance with SPSS. Khan and Surisetti (2020) examined financial well-being of working women of mediating effect of cashless financial experience and digital financial self-socialization and found that there is a direct effect of financial literacy on financial well-being and found significant indirect effect on the financial experience of cashless transactions. Mindra and Moya (2017) studies the mediating effects of the financial self-efficacy on the relationship between variables like financial attitude, financial literacy and financial inclusion using SPSS (Statistical package for social sciences) and AMOS 21(analysis of moment stricture) structural equation models and bootstrapping methods has been used. They found that there is a significant and insignificant relationship between variables.

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Financial literacy and Financial Investments

According to (Lusardi & Mitchell, 2014; Hung et al., 2016; Ong & Loke, 2017) the financial literacy has positive impact on the financial investment of individuals who have high levels of financial literacy are more likely to invest in financial instruments, such as stocks, bonds, and mutual funds, than those with low levels of financial literacy. Financial literacy provides individuals with the knowledge and skills necessary to understand financial concepts and evaluate financial products.

Financial self-efficacy as a mediator

Financial self-efficacy, an individual's belief in their capability to manage financial matters effectively, has emerged as a critical factor influencing investment behaviour. Numerous studies have demonstrated a positive association between financial self-efficacy and participation in financial investments (Lusardi & Mitchell, 2014; Hung et al., 2016; Ong & Loke, 2017). Higher financial self-efficacy individuals are more likely to invest because they have higher levels of confidence and a stronger sense of control over their financial decisions.

Notably, it has been suggested that the association between investment behaviour and financial literacy may be mediated by financial self-efficacy. While self-efficacy acts as a catalyst to put this information into practice, financial literacy provides people with the knowledge and comprehension of financial concepts they need. People who possess a high degree of financial self-efficacy are more likely to effectively apply their financial literacy, which empowers them to make well-informed investment decisions and actively engage in the financial markets. Those who have lower degrees of financial self-efficacy, on the other hand, might be aware of the necessary financial concepts but lack the courage or self-assurance to put them into effect. Consequently, even though they are financially literate, they can have a propensity to shy away from or not participate in financial investments at all, which could be detrimental to their long-term financial well-being. Through investigating the mediating function of financial self-efficacy, scholars can acquire significant understanding of the mechanisms that reconcile financial literacy with real-world investment practices. The development of targeted interventions and strategies aimed at enhancing financial literacy and self-efficacy among individuals can be informed by an understanding of how self-efficacy influences the translation of financial literacy into investment decisions. This understanding will ultimately foster better financial decision-making and increased participation in investment opportunities.

Objectives

1. To examine the level of financial literacy and financial self-efficacy among private sector employees in National capital region.
2. To analyse the relationship between financial literacy and financial investments among private sector employees in National capital region.
3. To explore the mediating role of financial self-efficacy in the relationship between financial literacy and financial investments in private sector employees in National capital region.

Research Methodology

The study is descriptive in nature and it is based on primary data. For the study the data collected is from the private sector employees of the NCR region. A total of 200 employees were selected from various private companies on the basis of simple random sampling. Respondents include 112 male and 88 female employees. The responses were collected with the help of a well-designed e-questionnaire which was sent to the respondents through google forms. The questionnaire was divided into 4 sections. The section A was mainly for demographics, Section B was regarding financial literacy, Section C covered financial investments in the stock market and Section D was regarding self- efficacy. Responses collected were then analysed using SPSS with appropriate statistical measures. All the responses were collected on 5-point Likert scale for financial self-efficacy questions.

Theoretical Framework

According to the suggested paradigm, financial investments and financial literacy are mediated by financial self-efficacy. It makes the point that those who possess strong financial literacy are also more likely to possess strong financial self-efficacy, which is favourably correlated with financial investments. Financial investments are the dependent variable, financial self-efficacy serves as the mediator, and financial literacy is the independent variable in the suggested model, which can be shown as a flowchart. The flowchart can help explain the research's theoretical framework and help visualize the linkages that have been postulated.

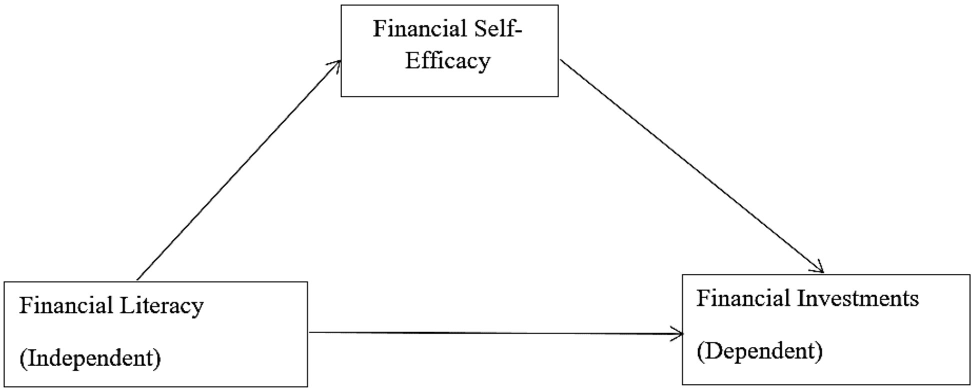


Fig 1: Theoretical Framework
Source: Proposed author's model

Hypotheses of the study

$H_{01:}$ Financial Literacy has no significant association with the respondent's financial investments in the stock market.
$H_{02:}$ Financial Self- efficacy has no mediating effect between financial literacy of the respondents and their financial investments in the stock market.

Data, Variables and Methodology

The survey data collected from the 200 respondents were considered to fulfil the objectives of the study. To analyse the effect of financial literacy on financial investments, a linear regression was conducted. Analysing the mediating effect of financial self-efficacy, Baron and Kenny method of mediating was used by the researcher. For the same, multiple regression was used. To test multicollinearity among independent variables, VIF of 10 or greater is considered by the researcher. Independent t test was used to find out gender wise differences in the levels of three variables taken up in the research model. Percentage was used by the researcher for categorisation of the respondents relative to their levels of financial literacy, self- efficacy, and financial investments. For determining statistical significance, p-value was taken as 0.05.

Study was conducted in the National Capital Region, India. The respondents selected for the study are private sector employees from different companies. Financial literacy for the study has been taken as respondent's knowledge with respect to various basic and financial advanced concepts. Also, the term financial self-efficacy has been referred to as the individual's belief in handling his or her finances (Goswami and Bhuyan, 2021). Financial Investments for the study are taken as the various investment decisions the respondents make to invest their money in the stock market. For the demographic factors, gender and organisational position is taken into consideration for the purpose of the study.

Data Analysis

The data collected from the selected private sector employees from NCR region is analysed using different statistical measures.

Table 1

Reliability Statistics	
Cronbach's Alpha	No of Items
.836	22

Table no. 1 depicts the Cronbach alpha which is .836 and is therefore reliable for the study as Cronbach alpha in the range of .06-.09 indicates a good internal consistency.

Financial Literacy

The level of financial literacy was assessed by analysing the responses of the respondents that pertained to the questions regarding basic and advanced knowledge of finance.

Table 2

Responses to Financial Literacy Questions

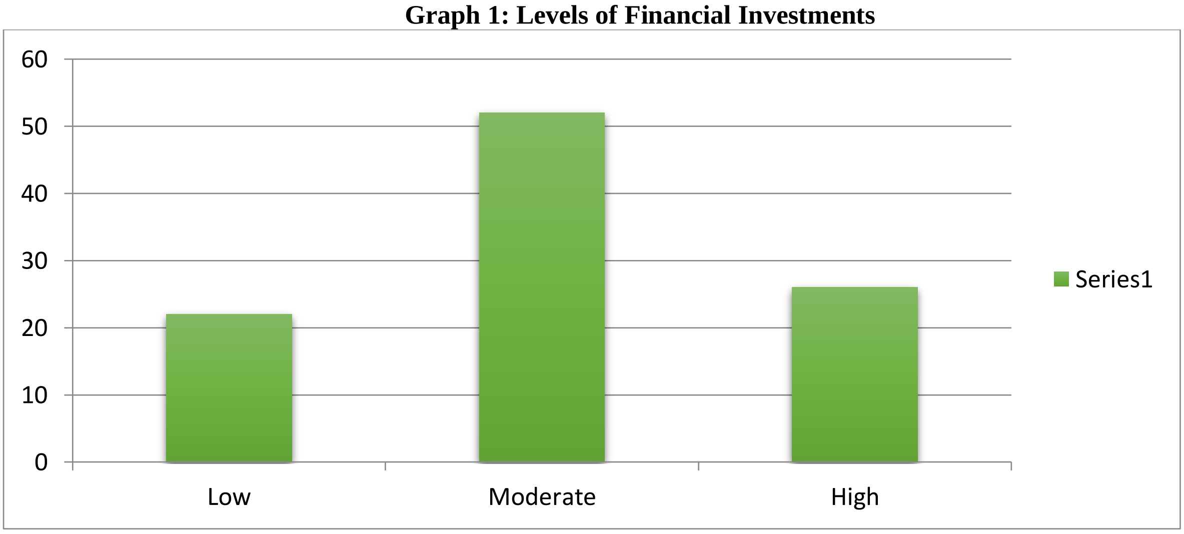
Parameters	No. of correct responses	Total Responses(N)
Short term investments	82	200
Long term investments	89	200
Compound Interest	77	200
Mutual funds	108	200
Stock Market	125	200
Options	68	200

Source: Primary Data

Financial Investments in stock market

The second section of the questionnaire was intended to assess the financial investments of the respondents in the stock market. Financial investments refer to the allocation of funds towards various financial instruments such as stocks, bonds, mutual funds, real estate, and other securities, with the expectation of generating returns. The responses collected were analysed according to low to high investments in the stock market by the respondents. The responses were categorised under three sections i.e. low investments, moderate investments, and high investments. From the graph 1, it is visible that 22% respondents preferred investing fewer amounts of funds in the stock market, whereas 52% of the respondents were inclined to invest moderate amount of funds and 26% respondents were interested in investing high amount of money in the stock market.

Graph 1: Levels of Financial Investments



Source: Primary data

European Economic Letters
ISSN 2323-5233
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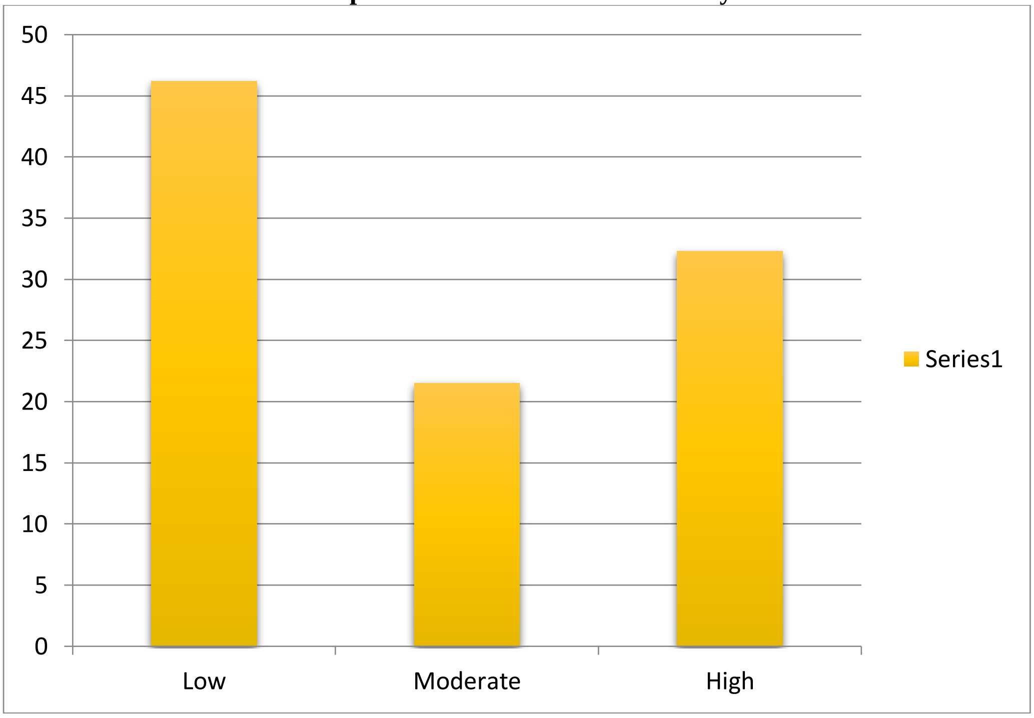
Financial Self- Efficacy
Financial self-efficacy is the ability of the individual to handle one's finances and his/her belief in being a financial planner. It relates to the confidence that people have in their own financial abilities and their ability to make informed financial decisions. Individuals with high financial self-efficacy are more likely to have positive financial outcomes as compared to those with low self-efficacy. To analyse the financial self-efficacy Likert scale questionnaire has been used by the researchers.

Financial Literacy
Financial Literacy has become extremely important especially in the volatile times we live in. Achieving a level of financial stability is necessary and that can be done by being aware about the ways to handle one's individual investments. Financial literacy of the respondents was assessed by asking a few questions regarding some basic and advanced concepts of finances. Based on this, the respondents were categorised into having a low, high, and moderate levels of financial literacy. As seen from the graph 2, 46.2% were having low levels of financial literacy, 21.5% were having moderate levels of financial literacy and 32.3% were having high levels of financial literacy.

Graph 2: Levels of Financial Literacy



Source: Primary data

Hypotheses Testing
H_{01}: Financial Literacy has no significant association with the respondents' financial investments in the stock market.

Table No-3 Regression Analysis

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	P-value
1	.447[a]	.521	.519	7.118	.547	.001**
a. Predictors: (Constant), Financial Literacy						

Source: Computed Data

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Table 4: Coefficients [a]

Demographic factors		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	6.682	.667		9.779	.000
	Financial Literacy	1.808	.206	.529	9.998	.000
a. Dependent Variable: Financial Investments ** Significant at 0.01 level						

Source: Primary data

Interpretation: - To evaluate whether the predictor variable, financial literacy, and the dependent variable, financial Investment in stock market, have a statistically significant relationship, regression has been used. The linear analysis revealed a statistically significant relationship (P value = 0.01) between the respondents' financial investment and financial literacy with a p-value of .000 and additionally, the "R^2" coefficient of determination is 52.1%. Resulting, H_{O1} is rejected, proving a correlation between the variables of the study.

H_{02}: Financial Self- efficacy has no mediating effect between financial literacy of the respondents and their financial investments in the stock market.
To examine the mediating effect of financial self-efficacy, Baron and Kenny method of mediating was used by the researcher. For the same, multiple regressions were used.
Financial self-efficacy vs Financial Investment

Table 5 Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	P-value
1	.898[a]	.798	.628	8.119	.648	.000**
a. Predictors: (Constant), Financial self-efficacy						

Source: Computed Data

Table 6 Coefficients [a]

Demographic factors		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.139	.843		6.779	.000
	Financial self-efficacy	1.808	.206	.784	26.998	.000
a. Dependent Variable: Financial Investments ** Significant at 0.01 level						

Source: Primary data

Interpretation: - To evaluate whether the predictor variable, financial self-efficacy, and dependent variable, financial Investment, have a statistically significant relationship, simple regression was carried out. A significant statistical relationship (P=0.00) was discovered with p-value =.000 and the value of R^2 is 79.8%.

Financial self-efficacy vs financial literacy

Table No 7 Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	P-value
1	.727[a]	.539	.548	7.224	.437	.000**
a. Predictors: (Constant), financial literacy						

Source: Computed Data

Interpretation: - To analyse the association between the two variables, linear regression was carried out. The two variables were found to have a statistically significant association with p-value of .000 and correlation coefficient of 0.729. The value of R^2 was found to be 53.9%.

Table 8 Coefficients [a]

Demographic factors		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	12.543	.287		34.879	.000
	financial literacy	3.460	.289	.729	13.346	.000
a. Dependent Variable: financial self-efficacy ** Significant at 0.01 level						

Source: Primary data

Finally, to predict the dependent variable i.e. Financial Investments by the independent and mediator variables, multiple regressions was carried out.

Multiple Regression Analysis (IV- Financial self-efficacy and financial literacy, DV: Financial Investments)

Table 9 Regression

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	F	P-value
1	.986	.884	.637	9.334	.526	.000**
a. Predictors: (Constant), Financial self-efficacy						

Source: Computed Data

Table 10 Coefficients [a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Investment	VIF
1	(Constant)	2.543	.498		3.187	.000		
	Financial self-efficacy	.960	.054	.923	14.017	.000	.306	2.321
	financial literacy	-.167	.198	-.056	-1.189	.188	.306	2.321
a. Dependent Variable: Financial Investment								

Source: Primary data

Interpretation: - The association between the predictor (financial literacy) and the outcome (financial investment) variable becomes insignificant (p =.188), whereas the association between the mediator variable and the dependent variable was found to be significant (p=0.00) with the introduction of the mediating variable i.e. self-efficacy. Therefore, the hypothesis is rejected indicating that self-efficacy plays the mediating role between the two variables. The value of R^2 increased (R^2=88.4%), showing that the dependent variable (financial investment) increased with the introduction of self-efficacy as the mediating role. The absence of multicollinearity (VIF<10) indicates the reliability of the regression estimations.

Findings of the Study

The researcher used an independent sample t test and multiple regression technique to find any significant differences between the variables of the study. The analysis shows dependability between the two variables and on that basis the hypothesis was rejected. The study showed the existing statistically significant differences in the levels of financial literacy, investment levels and self-efficacy with respect to gender. Out of 92 respondents that were classified as having low financial literacy 52 are female and 40 are male.

Table 11 Descriptives

Group Statistics	Gender	N	Mean	Std Deviation	Std. Error Means
Financial Literacy Levels	Male	114	2.12	.712	.079
	Female	86	1.53	.624	.078
Financial Investments	Male	114	2.95	.624	.075
	Female	86	1.43	.610	.072
Self-efficacy	Male	114	2.02	.624	.054
	Female	86	1.30	.507	.062

Source Primary Data

Table 12 T-Test

Independent T Test		df	T	Sig. (2-tailed)
Financial literacy levels	Equal variances assumed	199	3.555	.000
	Equal variances not assumed	195.152	3.848	.000
Financial Investment levels	Equal variances assumed	199	2.741	.003
	Equal variances not assumed	195.245	2.755	.003
Financial Self-efficacy levels	Equal variances assumed	199	3.203	.001
	Equal variances not assumed	195.743	3.257	.001

Source Primary Data

The results show, that private sector employees of NCR region are having moderate level of financial literacy and financial self-efficacy. The results also found a significant relationship between financial literacy and financial investments among private sector employees. Furthermore, financial self-efficacy was found to mediate the relationship between financial literacy and financial investments among private sector employees in NCR region.

Suggestions

On the basis of the results, following suggestions are recommended for private sector organizations in NCR region:

1. Implement comprehensive financial wellness programs tailored to the diverse needs of employees, encompassing educational initiatives, interactive workshops, and personalized coaching to cultivate both financial literacy and self-efficacy.

2. Collaborate with industry experts, financial advisors, and reputable institutions to curate a series of engaging seminars and workshops that demystify investment concepts, share practical strategies, and provide opportunities for hands-on learning experiences.
3. Leverage digital platforms and cutting-edge financial planning tools to empower employees with accessible, user-friendly resources that facilitate informed decision-making, goal-setting, and seamless tracking of their financial journey.
4. Explore the implementation of incentive structures that recognize and reward employees who actively participate in financial education programs, demonstrate prudent financial behaviour, and achieve predetermined milestones in their investment portfolios.
5. Cultivate an organizational culture that champions financial responsibility and awareness by integrating financial well-being into the company's core values, leadership communications, and employee engagement initiatives, fostering an environment where open dialogue and continuous learning are encouraged.

By adopting a holistic approach that addresses both knowledge acquisition and self-efficacy reinforcement, private sector organizations in the NCR region can empower their workforce to navigate financial complexities with confidence, makes knowledgeable investments, and achieve long-standing financial security and stability. `

Conclusion

The study underscores pivotal character of financial literacy in shaping the investment behaviour of private sector employees. Financial literacy, a multifaceted understanding of personal finance concepts, prepares individuals with the knowledge and skills necessary to navigate complex financial landscapes and make prudent decisions. The findings highlight a robust association between financial literacy and engagement in stock market investments, emphasizing the capacity of financial education to empower individuals in managing their personal finances with confidence and competence.

The study also reveals disparities in financial literacy, self-efficacy, and investment levels among gender groups, with female respondents scoring lower across these dimensions. This finding highlights the need for targeted interventions and inclusive approaches to financial education, ensuring equal access and opportunities for all individuals to enhance their financial capabilities. In the current climate of economic uncertainty and rapidly evolving financial landscapes, financial stability has become a paramount concern. Achieving a balance between present needs and future aspirations necessitates a foundation of financial literacy, enabling individuals to make wise and responsible financial choices. Consequently, it is imperative for organizations to prioritize the implementation of comprehensive financial education and training programs for their employees. By fostering financial literacy and cultivating self-efficacy, organizations can empower their workforce to make informed investment decisions, ultimately contributing to their overall financial well-being and professional success.

As we navigate uncharted territories, the findings of this study will help policymakers, employers, and educational institutions to collaborate in promoting financial literacy initiatives. By fostering financial literacy and nurturing self-efficacy, organizations can equip their workforce with the confidence and competence to navigate the intricate landscape of personal finance, ultimately unlocking their potential to make knowledgeable investments and secure long-standing financial well-being.

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