

## The Impact of Financial Literacy on the Employees' Investment Decision in Jigawa State

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### ABSTRACT

*The main objective of this research is to examine the impact of financial literacy on employees' investment decision in Jigawa state. The population of this study is the entire Staff of Jigawa state. There are 27 local government areas in the state, which are divided into 3 senatorial districts. Given the wide socio-economic diversity in the state, the researchers used the stratified sampling technique to group the employees by their senatorial districts as; Jigawa Central, Jigawa North-East and Jigawa North-West. Then the convenience sampling method was adopted to select 300 employees from each senatorial District. In all nine hundred (900) employees participated in this study. The finding reveals that there is a positive and significant impact of financial literacy on employees' investment decision making in Jigawa State. But for the educational level and age the finding also shows that they have a positive but an insignificant impact on employees' investment decision making. Therefore, it is recommended that the governments at all levels should make more efforts to address the problem of financial literacy in Nigeria by organizing more workshops and seminars for the employees in collaboration with CBN to reduce the financial exclusion among Nigerians.*

**Keywords:** Financial Literacy, Investment Decision, Jigawa State.

### 1. INTRODUCTION

The recent trend in finance and economic science shaped financial literacy not simply convenient, but an important tool for the survival. The fact is that lack of financial literacy may result to poor financial choice among alternatives investment decision that might lead to unsought financial and economic consequences to the individual, the financial system and the whole economy at large. So, financial literacy is a basic concept of understanding money and its use in daily lives which encompass the way people manage their income and expenditure (Sarnovics, Mavlutova, Peiseniece, & Berzina, 2016).

In these days as it is not possible for the people to live and operate their life efficiently without being literate, as it will be very hard to live and operate their life efficiently while not being financially literate (Lusardi, 2008). This was confirmed in the study of Attridge (2009) that lack of the basic financial skill to save, manage and invest money during the work life and in retirement have cause most of the employees to have financial troubles. Lusardi and Mitchell (2014) mentioned that there is much to be learnt about financial knowledge such as saving, investment and money management in as much as employees are becoming more responsible for their own financial wellbeing. They claimed that, financial knowledge has significant impact during their work life and in retirement of the employees. But the study of Mokhtar, Husniyah, Sabri, Talib, (2015) confirmed that the general financial wellbeing of public sector employees is at the moderate level. Though financial literacy is important, the low level of financial literacy is common in both developed and developing countries (Nalini, 2011; Xu and Zia, 2012; Lusardi and Mitchell, 2013; Socol, 2014) suggesting the necessity for the improvement in the financial

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education interventions. Similarly, Xu and Zia (2012) confirmed the lack of evidence of the level of financial literacy in developing countries and financial education interventions despite its importance to the people in both developed and developing countries.

According to Holzman, (2010); Messy and Monticone, (2012) individuals' welfare and soundness economy to those developing, low income countries and African economies in general will be enhanced by improving people's financial literacy. Nevertheless, a few have known about financial literacy level and financial education programs in developing African countries, especially in Nigeria according to Nigeria financial literacy Baseline Survey report (2015) about 46.3 per cent of the adult population having low level financial literacy and not having access to the financial services and consequently this led to the first national survey in 2015 with the aim of addressing such a problem and guide to the development of financial literacy policy. Similarly, the report also confirmed that most of these adult population are within the age brackets between 16- 45 years of which about 50 per cent have either completed their primary education or not have formal education qualification which may probably have impact on their financial literacy. This factor confirmed in the study of Bhattacharjee (2014) that the demographic factors such as age, income, nature and place of work and educational level among Indian investors have a significant influence on their financial literacy and investment decision. Similarly, Lusardi & Mitchell (2013) also confirmed a positive relationship between financial literacy and age but at the older age it starts declining.

In Nigeria, the recent crisis in the banking industry and capital market which made many especially the poor lose their live savings leading to erosion of public trust and confidence in the financial system have been attributed mainly to the lack of financial literacy by the populace on the working fundamentals of the financial system, especially the capital market, (NFL Baseline Survey report (2015). All these have underscored the need for financial literacy to create better understanding of policies, products, prices and practices to enable the efficient functioning of financial systems. Keeping the above significant in mind the problem statement of the study is stated as follows. "To what extent the employees have financial literacy? There is any impact of financial literacy and demographic factors on the employees' investment decisions making?

## **2. OBJECTIVE OF THE STUDY**

Base on the stated problems above, the main objective of this research is to examine the impact of financial literacy on employees' investment decision in Jigawa state. Therefore, the research specific objectives are:

- 1) To determine the impact of financial literacy on employees' investment decision in Jigawa state.
- 2) To determine the impact of age on employees' investment decision in Jigawa State.
- 3) To determine the impact of the educational level on employees' investment decision in Jigawa state.

## **3. LITERATURE REVIEW**

### **3.1 Financial Literacy and Investment Decision**

Money management consists of personal savings which is brought about by the individual's financial literacy skills. Personal savings is one of the most prudent options often pursued by entrepreneurs in generating startup capital. According to GEM (2003), personal savings is widely seen as the most important source of finance accessible to entrepreneurs in forming a new

business. The concerns of excessive debt and very low savings can be destructive since both play very important roles in overall personal financial health.

Also, the relationship between financial literacy and budgeting has been established by many studies such as the study of Kidwell and Turrisi (2004) who view budgeting as a tool of being able to change spending patterns of individuals through the successful finance guideline. Thus, unnecessary spending is restricted and budget maintenance is met with a favorable attitude. Similarly, in the study of Chen and Volpe (1998) they pointed out that groups that are more knowledgeable financially, control their spending patterns and decisions by keeping detailed financial records. Budgeting and record keeping are thus driven by financial literacy and therefore important for individuals to possess these skills through the uptake of financial literacy education (Kimani, 2014).

On the other hand, the study of Klapper & Panos (2011) argued that financial literacy is negatively correlated with private pension planning in Russia. But, Skog (2006) also established that the older, healthier, more educated, married male workers, and union members, the higher income and workers at larger companies are more informed about the Chilean pension system.

Therefore, based on the above discussion the following hypothesis is formulated:

H1: There is a significant impact of financial literacy on the employees' investment decision in Jigawa State.

### **3.2 Socio-Demographic Factors and Investment Decision**

#### **3.2.1 Age and Investment Decision**

Previous researchers have identified some of the key Socio-demographic factors that could influence individual financial literacy in a range of financial investment decisions and such factors are; age, gender, and educational level. Therefore, the relationship between socio-demographic factors, financial literacy and the individuals' financial decision has been established by some previous studies, such as the study by (Lusardi *et al.*, 2013; Worthington, 2008; Lusardi and Mitchell, 2011 & ANZ' 2011) that confirmed the significant relationship between age, financial literacy and financial decisions. However, the possible justification for such an age pattern with financial knowledge is the fact that individuals learn and have more exposure to financial products and transactions as they move through their working lives and less exposure once retired (Lusardi *et al.*, 2013; Worthington, 2008). Similarly, Gallery *et al.* (2011) when the possible impact of financial literacy on superannuation investment decision-making, confirmed that the older people are more financially literate than the younger ones. But for the Dvorak & Hanley, (2010) argued that while some general skills are simply acquired with age, financial literacy requires a set of analytical and mathematical skills that do not necessarily increase with individuals' age.

Therefore, based on the above discussion the following hypothesis has been formulated:

H2: There is a significant impact of age on the employees' investment decision in Jigawa State.

#### **3.2.2 Education and Investment Decision**

Some previous studies established significant differences in financial knowledge by education when examining the possible association between education, financial literacy and financial decision. The study of (Lusardi & Mitchell, 2007, 2011) confirmed that those participants without tertiary education are less likely to understand advanced financial concepts such as risk diversification. Also, in another study within the European countries, they established that numeracy skills are especially lacking among those with low educational attainment Christelis *et*

*al.* (2010). Similarly, the ANZ Survey in Australia, (2011) also showed that educational attainment is associated with the financial literacy score.

Therefore, based on the above discussion the following hypothesis has been formulated:

H3: There is a significant impact of Education on the employees investment decision in Jigawa State.

## **4. METHODOLOGY**

### **4.1 Area of the Study**

The study will cover Jigawa State where by the entire staff of the state will be considered as the subject of the study.

### **4.2 Population and Sample of the Study**

The population of this study is the entire Staff of Jigawa State. There are 27 local government areas in the state, which are divided into 3 senatorial districts. Given the wide socio-economic diversity in the state, the researchers will use the stratified sampling technique to group the employees by their senatorial districts as; Jigawa Central, Jigawa North-East and Jigawa North-West. Then the convenience sampling method was adopted to select 300 employees from each senatorial district. In all there are going to be nine hundred (900) employees to participate in this study.

### **4.3 Method of Data Collection**

Data is collected through the use of the research questionnaire to be designed by the researchers. The questionnaire is designed by using questions adopted from Shaikh & Mustafa (2017) and Palm (2014).

The questionnaire consists of closed ended questions covering the variables of study, as it will enable the responses of the respondents to be limited to the stated alternatives (Bryman and Bell, 2003). The questionnaire contains three parts; the first part covers the demographic characteristics of the respondents, the second part tackles investment decision, and the third part handles employees' financial literacy.

However, due to the nature of the research, the data was collected through the help of research assistants who were deployed to each of the three (3) senatorial districts that served as the area of the study.

### **4.4 Method of Data Analysis**

The collected data were examined and check for completeness and comprehensibility. The data was then summarized, coded, tabulated and clean. The tabulated data is then analyzed with the help of the Statistical Package for Social Sciences (SPSS).

## **5. FINDINGS AND DISCUSSION**

A total of 900 questionnaires were distributed and 600 filled questionnaires were returned ( $n = 600$ ), thus, the response rate is 67%.

### 5.1 Demographic Profile of Respondents

The table 1 below displays the respondents' profile, which reveal that 260 (43.3%) are around the ages of 21-30 years, 190 (31.7%) are around the ages of 31-40 years, 150 (25%) are 41 years and over. For the educational qualifications, the data also reveals that 10 (1.7%) of the respondents are SSCE holders, 320 (53.3%) ND/OND holders, 190 (31.7%) are HND/Degree holders and about 80 (13.3%) of the respondents are Postgraduates.

**Table 1** Profile of the respondents

S/No	Items	Frequency	Percentage (%)
1	Age:		
	21-30	260	43.3
	31-40	190	31.7
	41 and above	150	25
2	Education:		
	SSCE	10	1.7
	ND/OND	320	53.3
	HND/Bsc	190	31.7
	Postgraduate	80	13.3

### 5.2 Reliability and Validity of the Instrument

A pilot study has been conducted to ensure validity and reliability of the constructs used in this research.

According to Sandhu *et al.*, (2011), the Cronbach coefficient Alpha was computed to measure the internal consistency of the instrument. Cronbach Alpha refers to a reliability coefficient that specifies the degree to which items are correlated positively to one another, the nearer the Cronbach alpha to 1, the better the internal consistency (Sekaran, 2003). The entire Cronbach Alpha coefficients for this study are above 0.60 thus, indicating a good internal consistency for the variables under study. Table 2 below shows the Cronbach Alpha coefficient for each of the variables.

**Table 2** Reliability statistics

S/No.	Variables	N of Items	Cronbach's Alpha
1	FL	5	.66
2	ID	7	.67

### 5.3 Correlation Analysis

To discover the track and strength of the relationship that exist between variables in this study the Pearson correlation was utilized. It will also help to know whether there is any threat of multicollinearity. According to Tabachnick and Fidell (2007) the case of multicollinearity arises when the values of the independent variables are 0.9 and beyond in the person correlation results.

According to Maiyaki and Moktar, (2011) when multicollinearity between variables exist the analysis will be weaker, since the interrelationship between the variables will increase the size of error terms as the variables that are interrelated will encompass needless information. Therefore,

one of the ways out to multicollinearity problems is to delete the interrelated variables (Gorondutse and Hilman, 2014). The Pearson Correlation analysis is shown in Table 3 below:

**Table 3** Correlations

	Age	Edu	FL
Age	1		
Edu	.566**	1	
FL	-.131**	.006	1

\*\* . Correlation is significant at the 0.01 level (2-tailed).

From the table above it can be seen that none of the variables are up to 0.9 thus the multicollinearity problem does not exist among the variables under the study (Tabachnick & Fidell, 2007; Hair *et al.*, 2010).

#### 5.4 Regression Analysis

The outcome of the regression analysis portrays the proportion to which employees' financial literacy, education and age predict their investment decision making in Jigawa State. It demonstrates that the R square (R<sup>2</sup>) was 0.212 and significance at 1%. Thus, we can say that financial literacy, age and basic education predict 20.12% of the employees' investment decision making.

It could be grasped from table 4 below that there is a significant positive impact of financial literacy on employees' investment decision making in Jigawa State whereas it is insignificant in the case of employees' educational level and age.

Financial literacy ( $\beta = 0.213$ ;  $p = 0.000$ ), education ( $\beta = 0.058$ ;  $p = 0.235$ ), and Age ( $\beta = 0.030$ ;  $p = 0.541$ ).

**Table 4** Regression analysis

Model	Standardized Coefficients		
	Beta	t-value	Sig.
(Constant)		27.462	.000
Age	.030	.612	.541
Edu	.058	1.188	.235
FL	.213	5.247	.000

## 6. DISCUSSION

This study examines the impact of financial literacy on the employees' investment decision in Jigawa state. The result is supportive to the past studies such as Shaikh & Mustafa (2017) and Palm, C. (2014). The finding reveals that there is a positive and significant impact of financial literacy on employees' investment decision making in Jigawa state ( $\beta = 0.213$ ;  $p = 0.000$ ). This finding is in-line with the study of (Al-Tamimi and Bin Kalli, 2009; Musundi, 2014; Shaikh & Mustafa, 2017; Palm, 2014). Therefore, H3: which is there is a significant impact of financial literacy on the employees' investment decision in Jigawa State is supported. Whereas, in the case

of employees' educational level ( $\beta = 0.058$ ;  $p = 0.235$ ) and age ( $\beta = 0.030$ ;  $p = 0.541$ ) the findings show that they have a positive but insignificant impact on employees' investment decision making in Jigawa State. Therefore, H1; and H2 were also supported but the impact is not significant.

## 7. CONCLUSION AND RECOMMENDATIONS

This study examines the impact of financial literacy on employees' investment decision in Jigawa State. The population of this study is the entire Staff of Jigawa State. There are 27 local government areas in the state, which are divided into 3 senatorial districts. Given the wide socio-economic diversity in the state, the researchers used the stratified sampling technique to group the employees by their senatorial districts as; Jigawa Central, Jigawa North-East and Jigawa North-West. The finding of this research reveals that there is a positive and significant impact of financial literacy on employees' investment decision making in Jigawa State. But for the educational level and age the finding also shows that they have a positive but insignificant impact on employees' investment decision making. Therefore, it is recommended that the governments at all levels should make more efforts to address the problem of financial literacy in Nigeria by organizing more workshops and seminars for the employees in collaboration with CBN to reduce the financial exclusion among Nigerians.

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