

## **Impact of Financial Literacy and Financial Attitude on Financial Decisions: Mediating Role of Financial Socialization**

Ali Asad<sup>\*</sup>, Umar Hayat<sup>†</sup> and Asifa Kanwal<sup>‡</sup>

### **Abstract**

*With today's complex financial developments, financial literacy is essential because it affects not only corporate financial decisions but also the broader financial well-being of the country's economic and social development. The purpose of this study is to investigate the factors that affect the financial decisions among college and university students in Pakistan. The data was collected through a self-administered questionnaire. A total of 446 completed and usable questionnaires were collected from Students. The empirical results show that there is a statistically significant relationship between financial literacy and the financial attitude toward the financial decisions, while there is positive relationship between financial socialization and financial decisions. This study is important to understand how these financial literacy and financial attitude with mediating variable affect the financial decisions of young people especially college and university level students. Efforts may be made to strengthen these variables in order to increase the financial literacy rates of these university students.*

**Keywords:** Financial Literacy, Financial Attitude, Financial Decisions, Financial Socialization, Students and Pakistan

### **Introduction**

Financial literacy is the procedure of getting financial knowledge, understand the financial framework of financial market and use that financial knowledge for sound financial decisions. Financial decision-making is a complex process that depends on many factors that may vary among individuals. While making any kinds of financial decisions in life people use to behave differently. Some make a decision based on judgment while others look at many other factors that lead them to make

---

<sup>\*</sup> Dr. Ali Asad, Department of Business Administration National College of Business Administration and Economics Sub Campus Multan, Pakistan. Email: [aliasadncba@gmail.com](mailto:aliasadncba@gmail.com)

<sup>†</sup> Umar Hayat, MPhil Scholar, National College of Business Administration and Economics Sub Campus Multan, Pakistan

<sup>‡</sup> Asifa Kanwal, MPhil Scholar, National College of Business Administration and Economics Sub Campus Multan, Pakistan

an appropriate financial decision. The decision making process becomes easy when all the variables are well confused by investors Lusardi and Mitchell (2007).

The variables that guide them to make the right decision so that losses can be avoided or reduced in the future. During the investment decision making period, investors face very complex factors such as risk, ambiguity, and excess selection. These challenges are for financial professionals, experienced investors, especially private households. Investors should pursue risks in their financial decisions. This can lead them to earn profits.

On the other hand, any decision taken by investors based on weak or misleading information or on the basis of poorly analyzed information may lead to incomplete results. Investment as an expense has now made it possible to make future profits. Investment expenditures are realized to achieve gains and can be achieved through two methods. The first method is investments in fixed assets such as buildings, machinery and plants. While the second may be investments in terms of money, such as stocks, bonds, etc. Both forms of investment can make a company thrive. Literacy is valuable. Information is crucial to decision-making.

In the current age, young people tend to value money more than compared to previous generations where older generations were not interested in the physical world and young generations at present. However, the financial attitude of the individual has more than the money will ultimately affect financial literacy towards financing. And people who view money as merely a measure to get their direct desires will not be able to properly plan for the future which represents the main problem of this modern age. Thus, individuals who have proper financial literacy and financial attitude will be more likely in early financial planning and decisions.

### **Literature Review**

#### *Financial Literacy and Financial Decisions*

Does financial literacy effect on financial decisions? If yes, do the students practically adopt those factors in their lives as a literate people? Financial literacy is important to make sound financial decisions. Studies have examined the vital impact of financial literacy and financial decisions. It is found the positive association between financial literacy and financial decisions. Increasing the different species and complex situation in financial markets, financial decisions are necessary in routine life. The study shows that young generation should take complex

financial decision early in their lives. This is the requirement of financial environment which affect to their behavior. A mistake which incurred in early life can be costly (Lusardi, Mitchell, & Curto, 2010).

Previous studies have also documented that the participatory role of women is less than men. It is due to lower financial literacy and less risk taking among women as compared to men. Evidence shows that one way to decrease the risk-bearing criteria among women with the increase of financial literacy so that they can take risks and make the economic financial decisions (Dreber, 2012). Countless families are away from the participation in the stock market due to low financial skills and they are not able to take financial decisions (Van Rooij M. L., 2011). For instance, there is study suggests that financial knowledge and expertise provide a substitute way of sound financial decisions. The age factories not spelled doom for making sound financial decisions when a decision-maker wants to develop financial expertise (Ye Li, 2014). Financial literacy is linked to borrowing, saving, and spending decisions. Therefore:

**H1:** Financial literacy has positively and significantly effect on financial decisions

*Financial Literacy, Financial Attitude and Financial Decisions*

Financial literacy consists of financial knowledge, financial attitude and financial behavior. To make sound financial decisions, it is necessary that an individual should financially literate. Financial literacy among students is the basic need since they are facing very complicated financial decisions in the current's requirements of the financial environment. The study found that financial behavior is influenced by the financial literacy that affects the financial decisions among young adults (Suresh Kumar C. W., 2017). A research reveals that consumers face complexity even doing basic calculations about finance matters and due to less knowledge of financial products as well as a financial market. Those people who have a higher financial literacy able to make better financial decisions (Mitchell, 2010).

In a study conducted by (Abdul Haque, 2016) it was reported that financial literacy, financial attitude and financial well-being are positively correlated with economic empowerment. Higher financial literacy among women leads to positive financial attitude. The results stated that financial literacy, positive financial attitude and financial well-being are the most important factor which should exist among women. Research has shown that women are also making an investment into financial derivatives independently as well as with the help of their family members, partners and their husbands (Zinman, 2009). Evidence

also states that economic empowerment and positively associated with financial literacy, positive financial attitude and financial well-being (Judy L. Postmus, 2012).

Financial attitude plays splendid role in financial well-being also. Positive financial attitude is possible through financial literacy and finally, positive attitude leads to financial well-being and economic empowerment of the individual. Financial is positively associated with financial knowledge (Soyeon Shim J. J., 2009). For instance, the findings state that with the support of financial education, the rate of financial literacy, behavior and attitude about financial issues can be improved (Joo, 2004). It is very important that all the people rather than college and university students should have proper understanding about financial issues, management of finance and financial well-being so that they can improve their behavior about finance and make better financial decisions. As the study conducted on Nigerian students showed that there is a very splendid association among financial well-being, money attitude, financial socialization and financial behavior rather than financial literacy. It is necessary that for the financial well-being; money attitude, financial behavior and financial socialization should be strong. For strengthening of financial well-being, these factors play a vital role (Sabri, 2017). Therefore:

**H2:** Financial attitude has positively and significantly effect on financial decisions

*Financial Literacy, Financial attitude ,Financial Socialization and Financial Decisions*

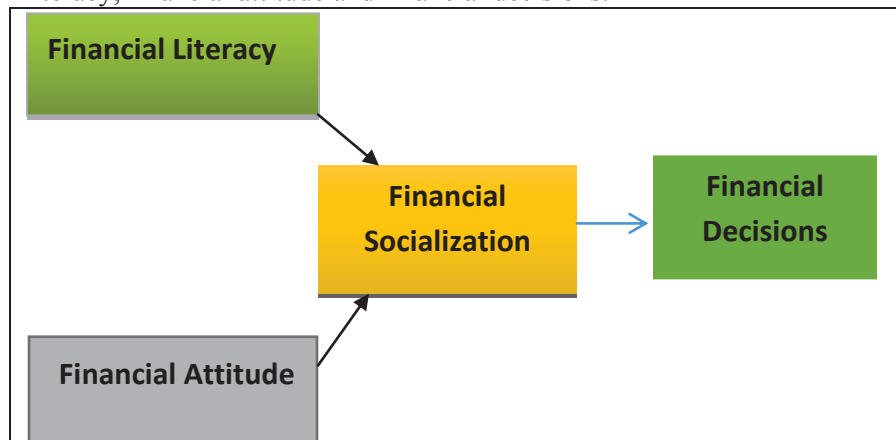
Financial socialization has much importance in making sound financial decisions. It is difficult for an investor that on behalf of financial literacy or positive financial attitude, he can make better financial decisions. So, financial socialization plays as mediating role between financial literacy and financial decisions. It is also found that in high schools in the programs upon financial literacy, not only teach the students' only basic concepts about managerial finance but also train them practically about financial decisions.

Another study found that the financial literacy among children can be increased with the help of increasing knowledge and direct involvement in financial products and services (Margaret Sherrard Sherraden, 2010). Discover that family communication on consumption issues decreases with age, while peer communication about consumption increases with age. This means that parents influence growth slowly weak over time, while the influence of their peers is growing stronger. As the child grows older, he will be exposed to different agents of social

interaction, and interactions with these social factors, the child learns about the roles of consumers. Young men are also developing financial literacy through the process of socialization. The following discussion highlights relationships between agents of primary socialization (i.e., family, peers, schools and the media) and financial literacy (Churchil, 1979). For example, Lachans and Liegault (2007) found that students who view consumption as a means of belonging or be accepted by their peers are less likely to be competent consumers, while those who sought consumer information from colleagues are more likely to be aware of consumers. A Study found that the degree to which people use the media (for example, Messages, publications, software, and the Internet) as a source of information for financial planning was positive with the best financial practices, as well as financial satisfaction. They argued that there is a great deal of financial learning going on and that media sources are valuable self-learning sources of financial information (Hira,2005). Therefore:

**H3:** Financial Socialization has mediate the relationship between Financial Literacy, Financial attitude and Financial Decisions

Based on hypothesis developed above, we can design a model signifying the mediation role of financial socialization among financial literacy, financial attitude and financial decisions.



The model gives a demonstration of the variables and the relationship between them. The hypothesis is based on which model after the test concludes that financial literacy and financial attitude in having a financial socialization leads towards better financial decisions. It has explored the financial literacy (FL) and financial attitude (FA) and then stated the role of financial literacy and financial attitude on financial decisions (FD) of the students as mediation role of financial

socialization. Financial socialization plays also a vital mediating role in making financial decisions.

### **Research Methodology**

In this study, a non-probabilistic technique (convenient sampling) has been applied to identify a sample of about 446 respondents. The sample size of these 446 respondents in the state of Multan, Pakistan is taken for this study. A very proper care has been taken during the collections of data so that as a whole region of Multan can be covered. In convenient sampling technique, the researcher can choose the units of sampling as his convenience. A questionnaire was distributed directly to students in the classrooms. A quasi-structured interview was conducted, explaining the questions, conducted, if necessary, for those students who were unable to understand the relevant concepts. The language “English” has been used in the drafting of the questionnaire.

#### *Measurement*

Items of financial decisions were adapted and developed from the study of (Siew-Yong Yew, 2017). The items of financial socialization were adapted from the research conducted by (Soyeon Shim B. L., 2009). Additionally, items for financial attitude were adapted from the studies of (Muhammad I. Albeerdy 1 & Behrooz Gharleghi 1, 2015). Further, the items for financial literacy were adapted from the study of (Suresh Kumar C. W., 2017). All items which are developed for the study scored by using the five-point Likert scale style. Most important that before distributing the questionnaire among students for survey and data collection, the instruments developed by us were revised and inspected by three experts to ask about the errors in format, questions and wording and then make some amendments according to the instructions by the experts.

### **Result and Discussion**

#### *Demographic Factors of respondents*

In this study, the total number of respondents were 446 in which 186 male and 260 female. 119 respondents were between the age of 18 to 22 years, 150 respondents were between the age of 23 to 27 years, 120 respondents were between the age of 28 to 32 years, 45 respondents were between the age of 33 to 37 years, 12 respondents were above than 37 years, 56 respondents were doing the B.com degree, 151 respondents were doing the BBA degree, 119 respondents were doing the M.com degree, 88 respondents were doing the MBA degree, 20 respondents were doing the MSc (Accounting & Finance) degree, 12 respondents

were doing the M. Phil degree, 116 respondents were married and the other were unmarried (single).

Table 4.1

Table 4.1 is presenting the demographic characteristics of the respondents.

		Gender		Total
		Male	Female	
Age	18 to 22 years	67	52	119
	23 to 27 years	100	50	150
	28 to 32 years	80	40	120
	33 to 37 years	15	30	45
	Above than years	8	4	12
Qualification	B.Com	30	26	56
	BBA	81	70	151
	M.com	66	51	119
	MBA	23	65	88
	MSc (Accounting & Finance)	12	8	20
	M. Phil	8	4	12
Material Status	Married	116	48	68
	Single	330	174	156

#### *Reliability Analysis*

Reliability estimates were calculated to assess the consistency of items for financial literacy, financial attitude, financial socialization and financial decisions using the Cronbach's Alpha technique. Table 4.4 presents the results of the reliability analysis.

Table 4.2

Cronbach's Alpha

Sr. #	Factors/ Variables	Cronbach's Alpha
1	Financial Literacy	0.783
2	Financial Attitude	0.706
3	Financial Socialization	0.767
4	Financial Decisions	0.709

The table is being showed that all the factors are reliable because the value of Cronbach's alpha for all factors are greater than 0.70. Because according to Kline (2005) the data will be reliable if its value equal than or greater than 0.70. The aggregative reliability of the data is the best.

#### *Correlation Analysis*

The two-variable correlation measures the degree of linear relation between variables. Pearson's variable correlation (r) was analyzed

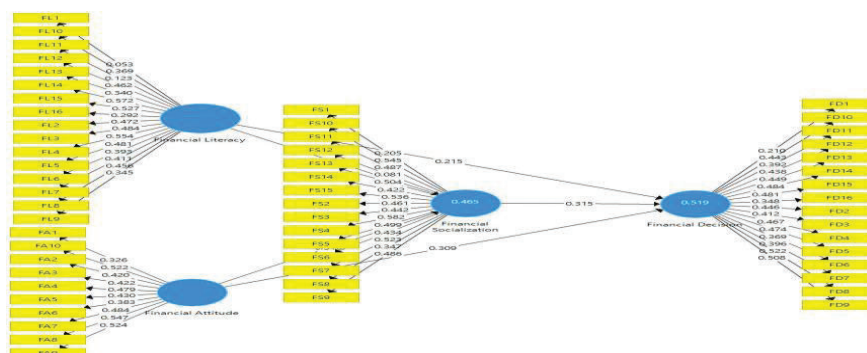
between financial literacy, financial attitude, financial socialization, and financial decisions. The correlation coefficient between 0.10 and .30 shows a weak correlation between the variables, a value between 0.30 and 0.70 showing the moderate relationship between the variables, the correlation coefficient values above 70. A strong correlation between the variables (Millan, 2000). The value of  $P < 0.05$  was used as a standard statistic for the correlation coefficient to determine whether the degree of correlation was significant. Table shows Pearson correlation values among the study variables.

Table 4.3

Correlation Analysis

	FL	FA	FS	FD
FL	1			
FA	.590**	1		
FS	.583**	.566**	1	
FD	.582**	.613**	.625**	1

There was significant and positive relationship financial attitude and financial decisions ( $>.30 <.70$ ). There was positive and the significant positive relationship between financial attitude and financial socialization ( $>.30 <.70$ ). There was a significant positive relationship between financial literacy and financial decisions. There was positive and significant relationship between financial literacy and financial socialization ( $>.30 <.70$ ). There was also positive relationship between financial literacy and financial decisions ( $>.30 <.70$ ). There was significant and moderate positive relationship among financial literacy, financial attitude, financial socialization and financial decisions.

*Fig: Structured model**Composite Reliability*



The composite reliability should be greater than 0.70. In exploratory research, the acceptable values of composite reliability range from 0.60 to 0.70, whereas the value from 0.70 to 0.90 are considered as satisfactory in the most advanced level of research (Nunnally & Bernstein, 1994). Cronbach's Value show the reliability of data. Reliability and validity test is very important for any research. Because if data is not reliable then we cannot generate valid result and also it will also don't have practical implication. The Composite reliability is greater than 0.70 in regard of all variables.

Table 4.4

## Composite Reliability

Latent Variable	Composite Reliability
Financial Literacy	0.723
Financial Attitude	0.783
Financial Socialization	0.753
Financial Decisions	0.783

The Table 4.4 disclose the value of composite reliability for all variables are greater than 0.70, which signifies that all the variables are reliable.

*Convergent Validity*

Convergent validity tests whether constructs that should be related, are related. A parameter which often used in behavioral sciences, to measures the constructs that theoretically should be related, are in fact related. The outer loadings of indicators and average variance extracted (AVE) both criteria are considered by researchers to establish convergent validity (Fornell & Larcker, 1981). The highly interrelated indicators reveal the common construction of indicators indicating higher external loading. This property is also commonly known as pointer reliability. External loadings of indicators must be more than 0.70. Indicators with external discharges between 0.40 and 0.70 should be deleted if the results of the indicators are further omitted in AVE and the composite reliability of the building. Content for validity is another criterion for deleting items. Sometimes, input indicators are important to determine the validity of content from structures and indicators that have weak external loading are not deleted. When the external loads of the indicators are less than 0.40, those indicators should be deleted from the scale (Herital, 2011). Average Variance Extracted (AVE) is a common method for determining the validity of convergence of construction. AVE is the extent to which variation in indicators is explained by its construction. The value indicates that, on average, more than half of the variance in its indices (Fournell & Larker, 1981; Hare, Black, Babin, Anderson, and Tatham, 2006). Tables presents the outer loadings of indicators.

*Average Variance Extracted (AVE)*

The following Table represents Average Variance Extracted (AVE):

Table 4.6

Average Variance Extracted (AVE)	
Financial Attitude	0.610
Financial Decision	0.788
Financial Literacy	0.676
Financial Socialization	0.808

The Average Variance Extracted must be greater than 0.50. The above table signified that the AVE values are above than 0.50 which showed that all the variables have convergent validity.

*Discriminant Validity*

The discriminant validity determines whether the combinations in the model are closely related to each other. The square root of an AVE is compared from a particular construct with the relationship between this construct and other structures. The square root value of the AVE should be greater than the correlation.

No. of Hypothesis	Hypothesis	Decision
$H_1$	Financial literacy positively affect The Financial Decision	Accepted
$H_2$	Financial Attitude Positively affect The Financial Decision.	Accepted
$H_3$	Financial socialization mediates the relationship between financial literacy and Financial decision.	Accepted
$H_4$	Financial socialization mediates the relationship between Financial Attitude and Financial decision.	Accepted

After the research conducted by researcher, it is found that financial literacy affect financial decision positively. Our findings are consistent with existing literature about financial literacy and financial decision. Financial literacy is viewed as a fundamental ability. Major financial foundations have accentuated the significance of consumers having satisfactory financial education to manage an inexorably complex financial setting Huston, S. J. (2010). It is necessary for Young investor to have the skills, ability and knowledge to make sound financial decisions that support and help them to engage confidently and successfully in economic life. The need for financial literacy has become increasingly significant with the deregulation of financial markets and the easier access to credit Marcolin, S., & Abraham, A. (2006). The descriptive statistics and regression analysis is evident to the hypothesis that is:

**Conclusion**

In the research Conducted, the researcher demonstrate the importance of financial literacy, financial attitude, and financial Socialization impact on financial decision of an investor. The analysis concerning demographics demonstration that greater proportion of respondents were single, mostly from education sector that fall under the age range of 21 to 30 years and are most graduates with income level between Rupees 25,000 to 50,000 depicting little saving behavior with least investment interest. Through objective study the relationship between dependent and independent variable has examined. When the effect of intervening variable is checked, it is found that its effect is significant at given level of significance.

*Based on the results, interpretations and discussions, it can be concluded as:*

- 1) Financial literacy can play an important and significant role to increase the power of the financial decisions in college and university level students of Multan (Pakistan).
- 2) Financial Attitude is the source to strengthen the financial decisions. With the increase in financial literacy and financial attitude also get increase the power of financial decisions.
- 3) Financial socialization also has much contribution to make a financial decisions of students or investors.
- 4) Financial literacy is also positively related with financial attitude. As more the financial literacy and financial attitude and with financial socialization will enable the students or investors to make better financial decisions.

**Limitations and Future Directions**

Attention has been paid to ensuring that research is designed and conducted to improve the ability to achieve research objectives. However, it is sometimes unable to conduct a study without flaws due to personal resources constraints in terms of time, manpower and money, leading to data error collection and analysis. This study is not without its limitations and these need to be considered interpretation of results.

- 1) The sample size is the primarily limitation of this study. On the basis of the limited sample size, we cannot generalized the study to whole industry. The other limitation of the study is that it is only applied to Pakistan. Due do time limitation the researcher was unable to collect more data and additionally sometimes respondent are not available. The study is also limited by its time frame and it is a cross-sectional study. A larger diversified

sample with longitudinal study would be beneficial for future results.

- 2) The study is only analyzing the effect of financial literacy, financial attitude and financial socialization but in fact there are also some other variables that affect financial decision making. The future researcher can increase the scope of study in more than one country. They can also extend the time period to collect more data or sample size.
- 3) For all combinations, we relied exclusively on student self-report, so the links we found may be due to a common discrepancy in the reports. For this reason, future research should use multiple informants such as parents to better understand students' financial backgrounds. Parents can provide insight into the process by which they have communicated knowledge and skills with regard to financial issues during their early childhood years.
- 4) This study relied on one element to assess the impact of financial socialization (parents, peers, school, media, religion) on financial awareness of college students. While the question was similar to those used in other research, it is nevertheless important to develop more complete assessments and use them in future studies to elicit the effects of different socialization factors separately.

### Reference

- A Lusardi, O. M. (210). Financial Literacy among the Young. *Journal of Consumer Affairs* , 44 (2), 358-380.
- Abdul Haque, M. Z. (2016). Women's Economic Empowerment through Financial Literacy, Financial Attitude and Financial Well-being. *International Journal of Business and Social Sciences* , 7 (3).
- AC Lyons, E. S. (2006). Financial Education and communication between parents and children. *The Journal of Consumer Education* , 23.
- Ajay Singh, D. R. (2016). *Financial Literacy & its impact on Investment Behaviour for Effective Financial Planning* (Vol. 6). Noida, india,Dehli.
- Al-Tamimi, H. A. (2009). Financial Literacy and Investment Decisions of UAE investors. *Journal of Risk Finance* .
- Ani Caroline Grigion Potrich, K. M.-D.-S. (2016). Development of Financial Literacy model for the University students. *Management Research Review* , 39 (3), 356-376.

- Annamaria Lusardi, A. S. (2015). Visual Tools and Narratives: New ways to improve Financial Literacy.
- Binswanger J, C. K. (2012). How real People make long term Decisions. *Journal of Economic Behavior and Organization* , 81 (1), 39-60.
- Chatterjee, J. K. (2013). Childhood Financial Socialization and Young Adult's Financial Management . Association for Financial Counseling and Planning Education .
- Chen, J. J. (2015). Age differences in Consumer Financial Capability. *International Journal of Consumer Studies* , 39 (4), 387-395.
- Choninger, S. (2012). Theories of Personality: Understanding persons.
- Churchil, G. &. (1979). Television and Interpersonal influences on adolescent Consumer learning. *Journal of Consumer Research* , 6, 23-35.
- Danes, S. &. (1993). Children and Money: Teaching Money habits for Life.
- Dorjana Nano, T. L. (2015). The impact of Family Income on Students Financial Attitude. *European Journal of Economics and Business Studies* , 3.
- Dreber, J. A. (2012). Gender, Stock Market Participation and Financial Literacy. *Journal of Economics and Finance* .
- Dulin, G. C. (2016). An Analysis on the Financial Awareness and Literacy among the students of Cagayan State University Andrews Campus. Tuguegarao , Cagayan, Filipin.
- Gaudecker, H.-M. V. (2015). How does household portfolio Diversification Vary with Financial Literacy and Financial Advice. *Journal of Finance* .
- Gyensare, A. A. (2012). Determinants of University working-Students' Financial Literacy at the university of Cape Coast, Ghana. *International Journal of Business and Management* , 7 (9).
- Hawati Janor, R. Y. (2016). Financial Literacy and Investment Decisions in Malaysia and United Kingdom. *Malaysian Journal of Society and Space* 12 (2), 106-118.
- Hira, C. L. (2005). Self -directed Financial Learning and Financial Satisfaction. *Financial Counseling and Planning* , 16, 11-21.
- Hogarth, J. M. (2002). Financial Knowledge, Experience and learning preferences.
- HUSTON, S. J. (2010). Measuring the Financial Literacy. *The Journal of Consumer Affairs* , 44 (2).

- Irene Natasha, Z. H. (2015). Factors that influencing Property Investment Decisions among employees in Felcra Bhd. *International Journal of Accounting and Business Management* , 3 (2).
- Jing Jian Xiao, C. T. (2009). Acting for Happiness: Financial Behavior and Life satisfaction of College Students. *Social Indicator Research* , 92 (1), 53-68.
- Jing Jian Xiao, C. T. (2011). Antecedents and Consequences of Risky Credit Behavior among College Students: Application and Extention of the theory of Planned Behavior. *Journal of Public policy* .
- Jorgensen, B. L. (2010). Financial Literacy of Young Adults: The importance of Parental Socialization. *Interdisciplinary Journal of Applied family Studied* .
- Judy L. Postmus, S.-B. P. (2012). Financial Literacy: Building Economic Empowerment with services of Voilence. *Journal of Family and Economic Issues* .
- Kamuti Josphat Mweu, D. J. (2017). Factors influencing Investment Decisions in Nairobi Securities Exchange: A Case of Dyer and Blair Investment Bak Limited. *International Journal of Economics and Finance* , 2 (3), 1-15.
- Lewis Mandell, L. S. (2007). Motivation and Financial Literacy. *Financial Services Review* , 16, 105-116.
- Lusardi, A., Mitchell, O. S., & Curto, V. (2010). Financial Literacy among the Young: Evidence and Implications for Consumer Policy.
- Lusardi, O. S. (2015). Financial Literacy and Economics Outcomes: Evidence and policy implications. *Journal of Retirement* .
- Mani Goswami, K. D. (2017). A Study on Financial Literacy among college students. Dehli/NCR.