Financial Literacy and Investment Behavior of Salaried Individuals: A Case Study of Wolaita Sodo Town

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Abstract: *The issue of financial literacy has ever increasing its importance after the recent economic crisis and the call for enhanced financial literacy amongst consumers is a global phenomenon, driven by the growing complexity of financial markets, services and products. An important prerequisite for informed financial decision-making is adequate financial knowledge and skills to make competent investment decisions. Financial literacy improve individual's understanding of financial matters that enable them to make effective use of investment avenues and services by evaluating associated risks and returns and finally choosing those avenues which are best suited to them. An attempt has been made through this paper to identify the level of financial literacy and examine the relationship between financial literacy of salaried employees and their preference towards various investment avenues in Ethiopia. In order to meet these objectives, primary data were collected using covenant sampling technique from samples of 209 employees in Wolaita Sodo town, Ethiopia. Chi-square test was used to examine the relationship between financial literacy and investment preference. The results of the study concluded that financial literacy level of individuals is very low. It does not influence the investment preference of salaried employees towards various investment avenues, except for government bonds. Preference for government bonds are significantly influenced by the level of financial literacy of the respondents. In addition, participants of high as well as low financial literacy groups prefer similar investment avenues. They mainly prefer to invest in traditional and safe financial products and do not invest much in complex financial products which are comparatively more risky and can give higher return. These results highlight the need for financial education programs focusing specifically on developing investment knowledge and skills to facilitate informed investment decisions.*

Keywords: *Ethiopia, Financial Literacy, Investment Avenue, Investment Preferences, Salaried individuals.*

I. INTRODUCTION

1.1 Background of the Study

The issue of financial literacy has ever increasing its importance after the recent economic crisis (Allen, 2012) and the call for enhanced financial literacy amongst consumers is a global phenomenon, driven by the growing complexity of financial markets, services and products. Current financial literacy statistics show a decrease in the level of financial knowledge for many subpopulations of different country including the United States (National Financial Educators Council, 2012). An important prerequisite for informed financial decision-making is adequate financial knowledge and skills to make competent investment decisions. Financial literacy improve individual's level of financial understanding and enable them to make effective use of financial products and services by evaluating associated risks and returns and finally choosing those products which are best suited to them. Financial literacy enables them to process financial information and makes informed decisions. Individuals with high financial literacy cannot get cheated by sales people selling financial products not suited for them. Financial literacy aids in improving the quality of financial services and contribute to economic growth and development of a country (Bhushan, 2014).

1.2 Statement of the Problem

Over the recent years, financial landscape has changed considerably becoming complex with the introduction of many new financial products. Previous research suggests that those with low levels of financial literacy face problems with issues relating to personal finance such as savings, borrowings, investments, retirement planning etc. The investment decision that individual invest in different avenue has risk and return and in order to understand risk and return associated with these products, a minimum level of financial literacy

is required. Large body of literature has examined how financial literacy of people would play a role on financial decision making (for example see Aren & Aydemir, 2014; Abdeldayem, 2016). These studies concluded that level of financial literacy of individuals affect financial behavior toward various investment avenues. For instance, financial illiteracy has been considered as the reason for poor financial practice behavior (Robb & Woodyard, 2011), inability to make informed financial decisions (Chen and Volpe, 1998), being unable to make personal contributions (Van Rooij, Kool, Prast, 2007), inadequate stock participation (Van Rooij, Lusardi & Alessi, 2011; Bhushan, 2014; Abdeldayem, 2016), irresponsible financial management behavior (Perry & Morris, 2005; Ludlum, Tilker, Ritter, Cowart, Xu, & Smith, 2012), unpreparedness for post-retirement times (Lusardi & Mitchell, 2007), portfolio under diversification (Guiso & Jappelli, 2008), wealth accumulation (Van-Rooij, & Lusardi, Alessi, 2012), poor investment decisions (Al-Tamimiand & Kalli, 2009),financial dissatisfaction (Yoong, See & Baronovich, 2012), no intention to control personal budget (Sharahbani, 2012), unimproved household financial management behavior (Hilgert, Hogarth, & Beverly, 2003). Even though there are many studies have been conducted on financial literacy of individuals, only few of them focused to examine the relationship between financial literacy and investment decision to ward various investment avenues. Although, Refera, Dhaliwal and Kaur (2016) measured and described financial literacy across demographic characteristics of urban dwellers in Addis Ababa, Ethiopia, there is no study has been conducted to examine the effect of financial literacy of individuals on investment decision. Hence the current study has been made to know whether financial literacy affects the investment preferences of salaried employees towards various financial products available in Ethiopia using Wolaita Sodo town as case study. Does difference in financial literacy affect respondents' investment preference to ward different investment avenue. Such studies are important to implement financial intervention policy and strategies (Holzman, 2010).

1.3 Objective of the Study
The general objective of the study is to examine the relationship between financial literacy and investment behavior of the salaried employees working in private, NGOs and public sector in Wolaita Sodo town, SNNP regional state, Ethiopia. To examine the above general objective, the study has pursued the following specific objectives:
1. To measure the level of financial literacy of salaried employees.
2. To analysis the relationship between financial literacy and investment preference towards financial products.
3. To suggest some measures to improve the financial literacy of salaried employees.

1.4 Significance of the Study
It is very important to assess the level of financial literacy and its relationship with investment behavior. It is hoped that results of this study would improve policy makers', planners' and researchers' to understand the level of financial literacy and relationship between financial literacy and investment behavior of employees in Ethiopia. It may serve as an important tool as it contributes to the efforts of the country in improving financial literacy and investment level of employees. The present study would provide significant contribution in the area of behavioral finance through exploring the relationship between financial literacy and investment decisions.

1.5 Operational Definitions
Investment: An investment is the current commitment of money for a specific period in order to derive future payments that will reimburse the anticipated rate of inflation, the uncertainty of the future payment and the time the funds are entrusted. In economics, investment means the purchase by a producer of physical goods, such as equipment, inventory, machinery and house, in the hope of improving future business. It is the utilization of resources in order to increase income or production output in the future. However, in finance, investment is the purchase of a financial product or other item of value with an expectation of favorable future returns. It is the employment of funds with the aim of earning income or capital appreciation (Pandian, 2001).

Financial literacy: defined as the ability to use knowledge and skills to manage financial resources effectively for a life time of financial wellbeing. The Organization for Economic Cooperation and Development (OECD) defined financial literacy as: combination of awareness, knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial well being (Atkinson and Messy, 2012).

Salaried Employee: The respondents of this study consisted only the people those who earns their money as salary, popularly referred as salaried employee. Salary is a remuneration payable by an employer to his employee in consideration of his services rendered. It is a form of periodic payment from an employer to an employee, which may be specified in an employment contract executed between employer and employee. The person who receives salary or entitled to receive salary in different names is called salaried person.

Formal Organization: for the purpose of the study formal organizations are operationally defied as government organizations, large private business and Non-Governmental Organization (NGOs). NGOs are organizations which are operated not-for-profit.

1.6 Limitation of the Study

1. The current study was primarily limited to small sample size which confines to a sample size of 398 employees and the response rate was very low. In addition, the study was focused on urban area of the country. A large sample with a greater number of participants obtained both from urban and rural area would have benefited our results and enhanced the generalizability of the study.
2. Another limitation of the study was that it used only questionnaires to obtained the data. Possible improvement could have been interviewing some salaried employees from the study area to elicit greater information regarding financial literacy and investors' behavior in Ethiopia. This method could have added important qualitative data and greater insight into the investors' thoughts and opinions, so that better understanding and interpretation of the relation between financial literacy and investment decisions in Ethiopia would have achieved.
3. Measurement of financial literacy was also another limitation of the study. Review of literature shows that financial literacy of individuals are measured in different forms.

II. LITERATURE REVIEW

Financial literacy has been studied by many researchers and organizations across the globe from different aspects. Most researchers have studied the level of financial literacy of individuals. For example, OECD in 2005 conducted a study to examine the level of financial literacy in 12 major countries of the world including UK, USA, European countries, Japan and Australia. Result of the study showed that the level of financial literacy for most of the countries is very low. Geetha and Ramesh (2011) studied investment preferences in Indian and the study showed that people were not aware about all the investment options available to them and they lack knowledge about securities. Samudra and Burghate (2012) also assessed the investment behavior of the middle class households in Nagpur. They found that Bank deposits were to be the most popular instrument of investment followed by insurance. Small savings scheme such as PPF, Post office savings are the third preferred investment avenue. They also fund that return ranked first amongst the factors which influence the decision to invest in a particular instrument.

Other researchers also studied the demographic factors that influence the investment awareness as well as investment decisions of an individual. The focus has mostly remained on core factors such as age, gender, income, marital status, profession, education and financial literacy or knowledge. Results have concluded that financial literacy has wide-reaching implications for household savings and investment behavior. Abdeldayem (2016) studied the relationship between financial literacy and investment decisions in the Kingdom of Bahrain. The results revealed that the financial literacy level of the Bahraini investors was low (38.6%) and far from the needed level. The level of financial literacy based on the demographic variable found that women were generally less financially literate than men; respondents of age 41-50 were more knowledgeable than all other age groups, and financial literacy was highly correlated with education. Chaturvedi and Khare (2012) studied the Indian investor's investment pattern and awareness about different investment instruments. The results found that age, education, occupation and income level of the individual investors affects their investment behavior. They also identified the factors which contribute to investor awareness. Results found that occupation, education and income level affects the awareness level of investors towards various investment avenues. Sood and Medury (2012) assessed the working adult's investment preferences in Delhi, Gurgaon and Noida. They found that investment preferences are not affected by age, gender, income, marital status and employment status. Nga, Yong, and Sellappan (2010) investigated the level of general literacy and product awareness among young adults studying in a private higher educational institute in Malaysia. They tried to find out the effect of demographic factors on financial awareness of the youth and whether studying a course in business affects financial and product awareness amongst the youth or not. Finally they found that males have higher level of financial awareness as compared to females and education level as well as course taken in business has an influence on general and financial product awareness. Bhushan and Medury (2013) assessed Indian salaried individual's financial literacy level and found that financial literacy level gets affected by gender, education, income, nature of employment and place of work whereas it does not get affected by age and geographic region.

Study result by Beal and Delpachitra (2003) which examined financial literacy of Australian students at the University of Southern Queenslan, concluded that financial literacy was not high among students and the main reason for this was the lack of financial education at the school level. But a study that conducted for Australia and New Zealand Banking Group (ANZ) in (2003) showed that Australians overall were financially literate, except some groups with particular challenges. Those groups had lower level of education, no working

(or in unskilled work), with lower income level and lower saving rates, single and people at both extremes of the age profile. Lusardi and Mitchell (2007) carried out a study for the National Council on Economic Education and results showed that high school students and working age adults failed to understand basic economics related to interest rates, inflation and personal finance.

Bhushan (2014) conducted a study to examine the relationship between financial literacy and investment behavior of salaried individuals in India. Results of the study concluded that financial literacy level of individuals affects the awareness as well as investment preferences of salaried individuals towards financial products. Results of the study also showed that respondents in high financial literacy group have higher awareness level for all financial products except for post office savings. Statistically significant difference in awareness level found for bank fixed deposits, savings account, public provident fund, mutual funds, stock market investments and bonds.

Al-Tamimi and Kalli (2009) analyzed the level of financial literacy of individual investors in UAE who invest in the financial markets of UAE. Their result found that financial literacy of UAE investors is much less from what is actually required. They also found that there exists a significant relationship between financial literacy and investment decisions.

In Ethiopia, Refera et al., (2016) measured and describe financial literacy across demographic characteristics of urban dwellers in Addis Ababa. Results of the study revealed that more than half of the sample found to have a moderate to high levels of financial literacy, but the remaining those who were with low level of financial literacy demands intervention of financial education. Results also showed that statistically significant financial difference across gender, age, level of education, employment status and availability of sustainable income in the households.

Bhushan (2014); Abdeldayem (2016); Chaturvedi and Khare (2012) conclude the same thing that respondents with low financial literacy primarily invest in traditional and safe financial products and do not invest much on those financial products which are comparatively more risky and can give higher returns. Respondent's awareness as well as preference towards traditional investment options is much better than that for corporate securities, mutual funds, equity shares and preference shares. To conclude, the above literature on financial literacy and investment avenues have shown that awareness as well as preference towards traditional investment options is much better than that for corporate securities, mutual funds, equity shares and preference shares. It can be also said that very few studies have assessed the relationship between financial literacy and investment preferences of individuals. In Ethiopia, as per the researchers knowledge, there is no research has been done on this topic. This study aims at bridging this gap.

III. RESEARCH METHODOLOGY

3.1 Research Design
The current study adopted a descriptive survey design and the nature of the data is qualitative in nature. Mugenda and Mugenda (1999) notes that a survey research attempts to collect data from members of a population and describes existing phenomena by asking individuals about their opinion, attitudes, behavior or values. It is often used to study the general condition of people and organizations as it investigates the behavior and opinion of people usually through questioning them (Cooper and Schindler, 2003).

3.2 Target Population
The target population of this study included 72,900 salaried individuals working in Wolaita Sodo town and fall under income tax bracket. The information regarding number of salaried employees obtained from Social Security Agency of Wolaita Sodo town. In wolaita Sodo town, during the study period, around 23,400 private employees and 49,500 government employees were registered in the Social Security Agency.

3.3 Sample Size and Sampling Technique:
In view of the fact that the target population of the study was large, a representative sample of the population was used. Yamane (1967, pp. 886) provides a simplified formula to calculate sample sizes. This formula assumed a 95% confidence level and margin of error (e) 0.05. The sample size of the study was determined using the formula:

$$n = \frac{N}{1 + N(e)^2}$$

Where n is the sample size, N is the population size, and e is the level of precision.

$$n = \frac{72,900}{1 + 72,900(0.05)^2} = 398$$

Therefore, the sample size of the study was 398 respondents. To collect these 398 respondents, the researchers used convenient sampling techniques and distributed questionnaires to the respondents.

3.4 Type and Sources of Data
The study was applied qualitative type of data and collected using primary source of data as methods of data collection.

3.5 Data Collection Instrument
The primary data were collected through mail questionnaires that are self-administered by the respondents. Before distributing, the questionnaires were translated from English to Amharic versions to help in reducing the impact of language barriers. During data collection, respondents were informed about the purpose of the study as well as the confidentiality of their response. The questionnaires were distributed to 398 respondents and enough time was given to fill out the questionnaires. In order to measure the level of financial literacy of the salaried employees, the approach of Lusardi and Mitchell (2007) and Lusardi (2008) was utilized in this study. This approach is widely used in many empirical studies and it attempts to measure the level of financial literacy by using the most probable dimensions of financial literacy, i.e. compound interest, saving, inflation and stock risk, investment, debt. The financial literacy score was obtained by adding the individual scores of ten questions of different dimensions of financial literacy.

3.6 Pilot Study
Before the actual data collection performed, pilot testing of the questionnaires was done. Galloway (1997) suggests that a population of 5 - 10% of the final sample size is a considerably appropriate in any pilot study. Therefore, a pilot study was conducted among 40 salaried employees. The reliability of variables in each construct was confirmed through the pilot study. The improvements suggested by the respondents on the questions and variables were incorporated in the final questionnaires and the final questionnaires was prepared and field work was conducted.

3.7 Hypothesis
1. H_o: Investment preferences for various investment avenues are not associated with the financial literacy level of salaried individuals.
2. H_A: Investment preferences for various investment avenues are associated with the financial literacy level of salaried individuals.

3.8 Data Analysis and Presentation
The collected data were examined and coded personally by the researcher and the data were analyzed using different statistical techniques and tools depending on the nature of data collected from the respondents and the objectives of the study. Mean, percentages analysis and chi-square test analysis were applied. The data collected were processed and hypothesis tested using SPSS (version20.0).

IV.   RESULTS AND DISCUSSION
4.1 Descriptive Analysis
4.1.1   Response Rate
Total 398 questionnaires were distributed and collected from the respondents, who were working in government and private sectors in Wolaita Sodo town during the period of August to September, 2017. Out of which only 250 questionnaires were received back from the respondents. After analyzing the questionnaires, 41 were found incomplete and not properly filled. Finally, total 209 questionnaires were used for analyzing purpose. Although the response rate was low, it considered to be adequate to analysis the data.

4.1.2   Profile of the Respondents
To measure the level of financial literacy of the respondents, 10 basic financial literacy questions were included in the questionnaires and results of the study shows that their mean score was 5.244. Out of the 10 questions, 52.6% of the respondents scored below 5, which is very low. In addition, to measure the financial literacy of the respondents, they were categorized into two groups namely "High Financial Literacy Group" and "Low Financial Literacy Group". The respondents who scored financial literacy greater than the median were put in "High Financial Literacy Group" and those respondents who scored financial literacy either equal to or less than the median were put in "Low Financial Literacy Group". Accordingly, results of the study revealed that out of the total 209 respondents, 98 (46.1%) respondents grouped under high financial literacy and the reaming 111 (53.1%) respondents grouped under low financial literacy. Regarding to investment knowledge, almost half of the respondents (53.1%) rated themselves as average knowledgeable investors. In terms of formal training, only 40.7% of respondents attended formal training regarding to investment, finance and saving. But significant numbers of respondents (59.3%) did not participate in these types of training. Most of the respondents replied that their source of training was commercial banks, especially Commercial Bank of Ethiopia, and universities.

As table 1 below shows, in general, 91.4% of the respondents preferred invest in bank deposit from the total, 66.0% of the total respondents also preferred investment in government bonds, 64.1% from the total in pension fund, 34.9% in fixed assets, 25.4 in real estate, 12.4% in insurance, 12.0% in bullions, and 9.4% in corporate shares. In addition, the table shows that respondents in "higher financial literacy group" had higher preference for bank deposit, government bond, pension fund, fixed assets, real estate, bullions, life insurance and corporate share, according their orders. Respondents in "low financial literacy group" also had higher preference for bank deposit, government bond, pension fund, fixed assets, real estate, life insurance, bullions, and corporate share, according their orders. They did not invest much in those financial products which are comparatively more risky and can give higher returns. Table 1 shows the investment preference of high and low financial literacy groups for various investment avenues and chi-square test.

Table 1: Investment avenue distribution between High and Low Financial Literacy Group and chi-square test.

Financial Products	Preference of respondents on investment Avenues	Low Financial Literacy Group		High Financial Literacy Group		Total		Chi-square value	Df	P - value
		Count	%	Count	%	Count	%			
Bank Savings Account	Yes	105	55.0	86	45.0	191	91.4	3.093	1	0.079
	No	6	33.3	12	66.7	18	8.6			
Pension Funds	Yes	65	48.5	69	51.5	134	64.1	3.176	1	0.075
	No	46	61.3	29	38.7	75	35.9			
Government Bonds	Yes	66	47.8	72	52.2	138	66.0	4.554	1	0.033
	No	45	63.4	26	36.6	71	34.0			
Life insurance	Yes	16	61.5	10	38.5	26	12.4	0.847	1	0.357
	No	95	51.9	88	48.1	183	87.6			
Corporate Shares	Yes	11	55.0	9	45.0	20	9.6	0.032*	1	0.859
	No	100	52.9	89	47.1	189	90.4			
Real-estate	Yes	23	43.4	30	56.6	53	25.4	2.690	1	0.101
	No	88	56.4	68	43.6	156	74.6			
Bullions	Yes	14	56.0	11	44.0	25	12.0	0.95	1	0.758
	No	97	52.7	87	47.3	184	88.0			
Fixed Assets	Yes	36	49.3	37	50.7	73	34.9	1.879	2	0.391
	No	75	55.6	60	44.4	135	64.6			
Total		111	53.1	98	46.9	209	100			
* Significant at 5% level										

Source: SPSS output from survey data, 2017

4.2 Inferential Analysis
4.2.1 Financial Literacy and investment Preference towards Investment Avenues

Chi-square was used to test whether the investment preference of salaried employees for various investment avenues were independents of financial literacy. Results of the study show that the effect of financial literacy level of the respondents on all the investment avenues was not statistically significant at 5% level of significance, except for government bonds. This clearly shows that investment preference of an individual is not depends on the financial literacy level. On the basis of chi-square test, a strong evidence of a relationship is only observed between financial literacy and preference for government bonds (chi-square = 4.554, df = 1, p = 0.033). Thus it can be said that financial literacy level affects preference for government bonds. Therefore, all the null hypotheses are accepted, except for government bonds, that financial literacy did not significantly impact decision or preference of salaried employees towards various investment avenues. For government bonds, the null hypothesis was rejected in favour of alternative hypothesis. It can be inferred that government bond was preferred mostly by individuals in the higher financial literacy group than low financial literacy group.

V.   CONCLUSION AND RECOMMENDATIONS
5.1 Conclusion

In this study the researchers are trying to identify the relationship between financial literacy and investment preferences for various investment avenues. The data were collected from salaried employees in Wolaita Sodo, Ethiopia. The findings of this study demonstrate that the overall level of financial literacy of investors in Ethiopia is low, 47.4% during the study period. Results of this study are in line with survey findings of Lusardi and Mitchell (2006), Hogarth and Hilgerth (2002), Bernheim (1995), and Moore (2003), who reported that most respondents do not understand basic financial concepts, especially those pertaining to stocks, bonds, mutual funds, and the concept of compound interest.

Results of the study also show that respondents in high financial literacy group and low financial literacy group have the similar orders of preference for all investment avenues, except for bullions and life

insurances. Bank deposits are found to be the most popular instrument of investment followed by government bonds and pension fund. Investment in fixed assets is the fourth preferred investment avenue. So it can be concluded that salaried employees in Ethiopia invest their money in traditional and safe investment avenues and do not invest much in those instruments which are comparatively more risky and can give higher returns. This clearly implies that due to low level of financial literacy, individuals choose to invest their money in traditional investment avenues and are not able to take advantage of new age investment avenues which can offer them higher returns. People were not aware about all the investment options available to them and they lack knowledge about securities and the result is in line with Geetha and Ramesh (2011). The lack of respondent participation in stock and bond market could be that individual investors do not have knowledge regarding to shares and stocks, absence of secondary market and underdevelopment of primary capital market. Statistically significant difference in investment preference for government bonds is found. Thus it can be concluded that the level individuals' financial literacy affects investment preferences towards government bonds. This could be the result government that currently promoting and introducing bonds to finance mega projects.

5.2 Recommendations
To increase the investment awareness of the salaried employees, the following recommendation should be implemented by the concerned bodies:
1. It is recommended the government, policy makers as well as financial institutions and banks to take necessary steps to improve the level of financial literacy among the population, if they want to increase the demand for those investment avenues that are comparatively more risky and can give higher returns.
2. The regulatory body, National Bank of Ethiopia (NBE), should introduce secondary market and enhance the development of primary capital market. These markets increase the exposure of individuals to the financial markets.
3. Financial literacy is an issue that should also concern higher institutions. The most important way to improve the level of financial literacy is through financial education. The Ministry of Education (MoE) and the Universities available in Ethiopia need to identify and create programs that will fulfill the need for financial education for students with differences in existing financial knowledge, skills, and abilities. This can help students to control their financial future. Universities need to find both more effective and more creative ways to reach students, and could consider revising their curriculum to meet general education requirements by evaluating the delivery of financial education for students in order to identify effective approaches, delivery channels, and other factors that enhance effectiveness.

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