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# Financial smartness and behaviour of working employees with respect to Coimbatore city

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**Abstract**
Financial smartness is a type of business intelligence constituted of the knowledge and skills gained from understanding finance and accounting principles in the business world. It has emerged as a best practice and core competency in many organizations leading to improved financial results, increased employee morale and reduced employee turnover. Financial smartness is not an innate skill, rather it is learned set of skills that can be developed at all levels. Companies go for smart leases of their fixed assets, debt financing under loans, Business Innovation Research grants, internal revenue services, crowd funding, angel investors, peer-to-peer lending, venture capital and many more. Such options are decided on the basis of in-depth analysis of leverage, liquidity and several efficiency ratios. The Financial smartness and behaviour of working employees is analyzed using the statistical tools such as frequency table, Chi-Square distribution, multiple response analysis and Factor analysis. Conducting Return on Investment (ROI) analysis and interpreting the results are also part of financial intelligence. Financial literacy goes hand-in-hand with financial intelligence. It involves the proficiency of financial principles and concepts such as financial planning, managing debt, profitable savings techniques and the time value of money.

**Keywords:** financial planning, spending, saving and investment, return on investment

## Introduction

The Economy of India is the seventh-largest in the world by nominal GDP and the third-largest by purchasing power parity (PPP). The country is classified as a newly industrialised country, one of the G-20 major economies, a member of BRICS and a developing economy with an average growth rate of approximately 7% over the last two decades. Maharashtra is the wealthiest Indian state and has an annual GDP of US$220 billion, nearly equal to that of Pakistan or Portugal, and accounts for 12% of the Indian GDP followed by the states of Tamil Nadu (US$140 billion) and Uttar Pradesh (US$130 billion). India's economy became the world's fastest growing major economy from the last quarter of 2014, replacing the People's Republic of China.

The long-term growth prospective of the Indian economy is positive due to its young population, corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy. The Indian economy has the potential to become the world's 3rd-largest economy by the next decade, and one of the largest economies by mid-century. And the outlook for short-term growth is also good according to the IMF that stated that the Indian economy is the "bright spot" in the global landscape. India also topped the World Bank's growth outlook for 2015-16 for the first time with the economy having grown 7.6% in 2015-16 and expected to grow even higher.

India has the one of fastest growing services sectors in the world with an annual growth rate of above 9% since 2001, which contributed to 57% of GDP in 2012-13. India has become a major exporter of IT services, BPO services, and software services with $167.0 billion worth of service exports in 2013-14. It is also the fastest-growing part of the economy. The IT industry continues to be the largest private sector employer in India. India is also the fourth largest start-up hub in the world with over 3,100 technology start-ups in 2014-15. The agricultural sector is the largest employer in India's economy. India ranks second worldwide in farm output. The Industry sector has held a constant share of its economic contribution (26% of GDP in 2013-14). The Indian auto mobile industry is one of the largest in the world with an annual production of 21.48 million vehicles (mostly two and three wheelers) in FY 2013-14. India has $600 billion worth of retail market in 2015 and is one of world's fastest growing E-Commerce markets.

India's two major stock exchanges, Bombay Stock Exchange and National Stock Exchange of India, had a market capitalisation of US$1.71 trillion and US$1.68 trillion respectively as of Feb 2015, which ranks 11$^{th}$& 12$^{th}$ largest in the world respectively, according to the World Federation of Exchanges. India is also home to world's third largest Billionaires pool with 111 billionaires in 2016 and fourth largest number of ultra-high-net-worth households that have more than 100 million dollars.

India is a member of the Commonwealth of Nations, the South Asian Association for Regional Cooperation, the Non Aligned Movement, the G20, the G8+5, the International Monetary Fund, the World Bank, the World Trade Organization, the Asian Infrastructure Investment Bank, the United Nations and the New Development BRICS Bank.

India has quickly turned into a tech society, but its workforce hasn't kept up. About 56% of its labour force still works in farming, even though agriculture accounts for only 18% of its

economy and has remained that way for nearly a decade. By contrast, the need for skilled labour in the Information Technology, telecom, healthcare and retail sectors is growing rapidly. Combined, these industries have shown a compound annual growth rate (CAGR) of 10% to 15%, compared to about 5.5% for the farming sector depending on favourable weather conditions. The Information Technology industry is expected to generate 20 million jobs over the next six years, growing from a $118 billion to a $225 billion industry during that period, according to the Indian government. Separately, the healthcare industry is forecasted to create 40 million new jobs, expanding from a $100 billion market in 2014 to a $276 billion market by 2020; and the retail sector is projected to grow from a $490 billion to an $865 billion industry during the same period.

Only 29% of Indian women are part of the workforce, the lowest of all the BRICS nations and abysmal compared to developed nations like the U.S. A lot of this has to do with the cultural attitude of keeping women at home and a lack of adequate education for young girls that would enable them to forge professional skills. Unless the majority of India's workers are sufficiently educated and trained to fulfil skilled jobs, and unless more women are invited to work, Indian companies will find themselves unable to compete on the world stage or to attract foreign capital for growth.

India is a developing country where, there has been a consistent increase in the national savings rate after the independence period, though with considerable fluctuations yearly. From international standpoint of view, India has had a high savings rate compared to other developing countries, except those in East Asia.

Savings is an important variable for every country to be studied for the economic growth and development of any country. Savings is an important macroeconomic variable to be studied under the purview of the economic arena on an individual as well as household basis.

In India, as in many developing countries, most households are poor and do not save. Here, there is a requirement of mobilization of rural savings for financial growth. Aggregate savings in any economy depends on a number of determinants. In the Indian economy, the household sector contributes a lion's share of the total saving which needs to be stepped up.

Today's savings mainly in rural areas consists of assets in the form of animals, metals and also due to some awareness about saving institutions available nearby, encourages people to save money as to avail the rate of interest from the amount saved from time to time. The sources of income of households are diversified.

**Review of literature**

According to classical economists like Adam Smith, David Ricardo and J.S.Mill, "savings is an important determinant of economic growth". Savings components can be based on an individual or on household basis which proves to be the well-being. For individuals, savings become the cushion for the future's course of the unforeseen and upcoming as well as the uncertain circumstances of life.

Alexandra Dawson, (2004), in his study, "Investigating decision- making criteria of private equity investors in family firms", and this paper examines decision-making models used by private equity investors in their selection of family firms. Building on literature on investment criteria at start-up stage, a series of hypotheses is put forward, based on decision-making, strategic management and buyout theories. The theoretical model is tested through an experimental design for which data have been collected among 41 respondents based in Italy. Findings are analysed using hierarchical linear models, in order to investigate which criteria are used, assess their relative importance and test whether decision-making models are individual-specific or influenced by the firm individuals work for.

**Need of the study**

Investments do not always originate from savings. There are many people who sometimes quite unexpectedly receive lump sums which are surplus to their immediate requirement. All the types of investment have one common aspect. They are concerned with foregoing money now and receiving it back over a period of time in future. Savings only become investments if a person makes a decision to forego the use of the money saved for a period of time, in the hope of earning a return.

The salaried class has a fixed income and hence salaried people can save a percentage of their income. Those persons who get a higher salary have to plan their invest through tax planning. Otherwise, their income will be taken away by the Government in the form of Income tax. The Income of a salaried class rises gradually and hence they save a portion of their salary and invest in financial and non-financial assets. In a developing country like India, the salaried class is the major income group. As the salary increases, the number of people coming into the tax net increases automatically. The present study is an attempt the probe the factors influencing the salaried class towards financial investment.

**Objectives**

The broad objective of this research is to study the financial smartness and behaviour of working employees with respect to Coimbatore City.

- To study the importance and growth of savings in general and various regions in India.
- To identify various dimensions involved in financial behaviour of working employees.
- To analyse the relationship between demographic factors of the working employees, and the various financial smartness pertaining to investment.
- To access the various financial smartness factors involved in working employees.

**Source of data**

The accomplishment of these objectives, the researchers have employed both primary data and secondary data for her study.

- **Primary Data:** The study is based on primary data that were collected through a structured questionnaire prepared after the discussion with few working employees and business professionals.
- **Secondary Data:** The secondary data collected from published journals, magazines and various websites.

**Preparation of questionnaire**

The primary data are those which are collected fresh and for the first time and thus happen to be original in character. There are several methods of collecting primary data in surveys and descriptive researches. In this study, the researcher has taken the effort to frame a questionnaire after discussion with few experts and working employees. Finally, the questionnaire was designed which comprises of 49 questions, out of this 10 questions are based on the demographic profile and the rest are related to various other aspects "Financial smartness and behaviour of working employees with respect to Coimbatore city"

**Sampling and collection of data**

It refers to the number of customers selected from the universe to constitute a sample. The researchers have circulated 200 questionnaires to selected sample respondents and received back 182 filled questionnaires. But 10 questionnaires were unusable due to missing of complete information. Hence the sample size is 172. Since the researcher has taken only one city called Coimbatore, sample size is not beyond 172.

**Data Analysis**

The researcher used four important tools to analyze the data after entering, coding and grouping data. Simple percentage for multiple responses, Chi square and Factor analysis are used for analysis in this research work.

**Table 1:** Demographic profile of working employees in Coimbatore city

| S. No | Age | Frequency | Percent |
|---|---|---|---|
| 1 | Below 20 years | 41 | 23.8 |
| 2 | 21-30 years | 85 | 49.4 |
| 3 | 31-40 years | 19 | 11.0 |
| 4 | Above 41 years | 27 | 15.7 |
| | Total | 172 | 100.0 |
| S. No | Gender | Frequency | Percent |
| 1 | Male | 75 | 43.6 |
| 2 | Female | 97 | 56.4 |
| | Total | 172 | 100.0 |
| S. No | Marital status | Frequency | Percent |
| 1 | Single | 97 | 56.4 |
| 2 | Married | 75 | 43.6 |
| | Total | 172 | 100.0 |

***Source*:** Primary Data

From the above table, it is inferred that a majority of 49.4% of the respondents belong to 21-30 years category, 23.8% of the respondents belong to Below 20 years category, 15.7% of the respondents fall under the category of Above 41 years and 11% of the respondents belong to 31-40 years category with respect to their age.

From the above table, it is inferred that a majority of 56.4% of the respondents belong to Female Group, and 43.6% of the respondents belong to Male Group with respect to their Gender.

From the above table, it is inferred that out of 172 respondents of 97 of the respondents are single, and 75 of the respondents are married with respect to their marital status.

**Table 2:** Multiple responses of working employees monthly saving accumulation

| Preferences | Responses | | % of Cases | Rank |
|---|---|---|---|---|
| | N | Percent | | |
| Home Locker | 91 | 13.2% | 52.9% | III |
| Hand loans for interest | 78 | 11.3% | 45.3% | VI |
| Savings Bank Account | 94 | 13.6% | 54.7% | II |
| Bank RD account | 86 | 12.4% | 50.0% | IV |
| Postal Savings account | 94 | 13.6% | 54.7% | II |
| Postal RD account | 80 | 11.6% | 46.5% | V |
| Local Chits | 107 | 15.5% | 62.2% | I |
| Money market instruments | 61 | 8.8% | 35.5% | VII |
| Total | 691 | 100.0% | 401.7% | |

***Source*:** Primary data Sample size: 172. Cumulative responses size: 691

The above table explains the composition of multiple responses of the working employee's monthly saving accumulation with regard to the various preferences which induce the working employees to retain their accumulated savings. Based on the cumulative score of all the eight factors, one factor namely Local chits stand first in the ranking and hence this factors seems to be the most important among various preferences which induce the working employees to retain their accumulated savings. Various preferences namely savings bank account and postal savings account ranks second and home locker ranked third, Bank RD account ranked fourth, and Postal RD account, hand loans for interest, and money market instruments are ranked fifth, sixth, and seventh respectively. It can be concluded that various preferences are getting established in the market which attract the people and create financial awareness of saving schemes among the employees. The researcher concludes that the saving accumulation in local chits is comparatively higher than the other schemes, and employees naturally instigate this scheme of saving accumulation than other schemes. Moreover it also motivates them towards both to save and invest in this saving accumulation scheme in the study area.

**Table 3:** Multiple responses of working employees investments from saving accumulation

| Preferences | Responses | | % of Cases | Rank |
|---|---|---|---|---|
| | N | Percent | | |
| Fixed Deposits | 94 | 13.9% | 54.7% | I |
| Gold & Silver ornaments | 82 | 12.2% | 47.7% | IV |
| Chit funds | 94 | 13.9% | 54.7% | I |
| E Gold (ETF) | 83 | 12.3% | 48.3% | III |
| Mutual funds schemes | 77 | 11.4% | 44.8% | V |
| Stock Market | 90 | 13.4% | 52.3% | II |
| Agricultural land | 72 | 10.7% | 41.9% | VI |
| Housing plot | 82 | 12.2% | 47.7% | IV |
| **Total** | **674** | **100.0%** | **391.9%** | |

***Source:*** Primary data
**Sample size:** 172.
**Cumulative responses size:** 674

The above table explains the composition of multiple responses of the working employee's investments from saving accumulation with regard to the various preferences which induce the working employees to invest their accumulated savings. Based on the cumulative score of all the eight factors,

one factor namely Local chit funds and fixed deposits stand first in the ranking and hence this factors seems to be the most important among various preferences which induce the working employees to invest their accumulated savings. Various preferences namely stock market ranks second and E Gold (ETF) ranked third, Gold & silver ornaments and housing plot ranked fourth, and mutual funds schemes, and agricultural land are ranked fifth and sixth respectively. It can be concluded that various preferences are getting established in the market which attract the people and create financial awareness of saving schemes among the employees. The researcher concludes that the investment of the saving accumulation in local chit funds and fixed deposit is comparatively higher than the others schemes and employees naturally instigate this scheme of investing than other schemes.

**$H_0$:** There is no significant association between financial smartness age and salary slab of the respondents.
**$H_1$:** There is a significant association between financial smartness age and salary slab of the respondents.

**Table 4:** Association between financial smartness age and salary slab of the respondents

| Chi-Square Tests | | | |
|---|---|---|---|
| | **Value** | **Df** | **Asymp. Sig. (2-sided)** |
| Pearson Chi-Square | 14.408[a] | 9 | 0.109 |
| Likelihood Ratio | 13.791 | 9 | 0.130 |
| Linear-by-Linear Association | .130 | 1 | 0.719 |
| N of Valid Cases | 172 | | |

a. 6 cells (37.5%) have expected count less than 5. The minimum expected count is 1.88.

The test was performed at 5% level of significance. The output of Chi-square test is as presented in the above table. The Pearson Chi-square significance value is 0.109 with degree of freedom 9. Therefore, alternative hypothesis is rejected and hence, it is found that there is no significant association between financial smartness age and salary slab of the respondents. It might be also concluded that financial smartness ‘age and salary slab of the respondents are independent of each other. In other words, these two variables are not significantly associated with each other.

**$H_0$:** There is no significant association between financial smartness gender and salary slab of the respondents.
**$H_1$:** There is a significant association between financial smartness gender and salary slab of the respondents.

**Table 5:** Association between financial smartness gender and salary slab of the respondents

| Chi-Square Tests | | | |
|---|---|---|---|
| | **Value** | **Df** | **Asymp. Sig. (2-sided)** |
| Pearson Chi-Square | .639[a] | 3 | 0.887 |
| Likelihood Ratio | .642 | 3 | 0.887 |
| Linear-by-Linear Association | .001 | 1 | 0.982 |
| N of Valid Cases | 172 | | |

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 7.41.

The test was performed at 5% level of significance. The output of Chi-square test is as presented in the above table. The Pearson Chi-square significance value is 0.887 with degree of freedom 3. Therefore, alternative hypothesis is rejected and hence, it is found that there is no significant association between financial smartness gender and salary slab of the respondents. It might be also concluded that financial smartness gender and salary slab of the respondents are independent of each other. In other words, these two variables are not significantly associated with each other.

**$H_0$:** There is no significant association between financial smartness educational qualification and salary slab of the respondents.
**$H_1$:** There is a significant association between financial smartness educational qualification and salary slab of the respondents.

**Table 6:** Association between financial smartness educational qualification and salary slab of the respondents

| Chi-Square Tests | | | |
|---|---|---|---|
| | Value | Df | Asymp. Sig. (2-sided) |
| Pearson Chi-Square | 86.906[a] | 9 | 0.000 |
| Likelihood Ratio | 86.630 | 9 | 0.000 |
| Linear-by-Linear Association | 4.357 | 1 | 0.037 |
| N of Valid Cases | 172 | | |

a. 5 cells (31.2%) have expected count less than 5. The minimum expected count is 1.98.

The test was performed at 5% level of significance. The output of Chi-square test is as presented in the above table. The Pearson Chi-square significance value is 0.000 with degree of freedom 9. Therefore, alternative hypothesis is accepted and hence, it is found that there is significant association between financial smartness educational qualification and salary slab of the respondents. It might be also concluded that financial smartness educational qualification and salary slab of the respondents are dependent with each other. In other words, these two variables are significantly associated with each other.

**$H_0$:** There is no significant association between financial smartness occupation and salary slab of the respondents.
**$H_1$:** There is a significant association between financial smartness occupation and salary slab of the respondents.

**Table 7:** Association between financial smartness occupation and salary slab of the respondents

| Chi-Square Tests | | | |
|---|---|---|---|
| | Value | Df | Asymp. Sig. (2-sided) |
| Pearson Chi-Square | 35.316[a] | 9 | 0.000 |
| Likelihood Ratio | 37.269 | 9 | 0.000 |
| Linear-by-Linear Association | .001 | 1 | 0.977 |
| N of Valid Cases | 172 | | |

a. 3 cells (18.8%) have expected count less than 5. The minimum expected count is 2.17.

The test was performed at 5% level of significance. The output of Chi-square test is as presented in the above table.

The Pearson Chi-square significance value is 0.000 with degree of freedom 9. Therefore, alternative hypothesis is accepted and hence, it is found that there is significant association between financial smartness occupation and salary slab of the respondents. It might be also concluded that financial smartness occupation and salary slab of the respondents are dependent with each other. In other words, these two variables are significantly associated with each other.

**Table 8:** KMO and Bartlett's Test

| Kaiser-meyer-olkin measure of sampling adequacy. | | .565 |
|---|---|---|
| Bartlett's Test of Sphericity | Approx. Chi-Square | 363.233 |
| | Df | 28 |
| | Sig. | .000 |

**Table 9:** Factor analysis – total financial smartness variance explained

| Total Variance Explained | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 2.736 | 34.201 | 34.201 | 2.736 | 34.201 | 34.201 | 2.071 | 25.882 | 25.882 |
| 2 | 1.417 | 17.710 | 51.911 | 1.417 | 17.710 | 51.911 | 1.762 | 22.027 | 47.909 |
| 3 | 1.232 | 15.405 | 67.316 | 1.232 | 15.405 | 67.316 | 1.553 | 19.407 | 67.316 |

**Extraction Method: Principal Component Analysis.**

The above two tables explain the result of factor analysis by employing principal components analysis with Varimax rotation method. The KMO and Bartlett's test showed the Kaiser Mayer Olkin measure of sampling adequacy value as 0.565 and the significance value is less than 0.001 which shows that the variables are statistically significant and the data reduction technique can be exercised to reduce into factors.

From the above given table No, 4.42, the researcher infer that 8 variables emerged as 3 groups based on the Eigen value more than 1 which all together contribute nearly 67% to the financial smartness and behaviour of working employees with respect to Coimbatore city.

From the component matrix values factor 1 comprising of 3 variables namely there is no difference between I am aware of financial institutions (0.772), My income covers up living costs (0.764), My household income is regular and reliable (.619) are considered and termed as "Earning pattern", and factor 2 consisting 3 variables namely I am aware of the concept of financial smartness (0.699), I believe in the concept of financial smartness(0.618) and I can manage living expenses if main source of income is lost (0.883) were put together and termed as "Financial perception". The 3rd factor comprising of 2 variables namely I am aware of financial schemes in financial institutions (0.746) and I make monthly budget for the household (0.737) were put together and termed as "Cognizance".

Therefore the researcher concluded that the first factor which includes 3 variables and termed "Earning pattern" is greatly contributing in explaining financial smartness and behaviour of working employees with respect to Coimbatore city when compared to other factors, as shown in the above table. Due to shortage of time the researcher could not go for any further multivariate analysis to know which factor is more important and so on.

## Findings

The researcher has traced out the following important findings from the study.

- 49.4% of the respondents are between the age 21-30 and 23.8% of them are below 20 years
- There is no gender discrimination among the sample employees (43.6% and 56.4%)
- 54.1% of the employees' educational qualification is Graduation.
- More than 40% of the employees are married

## Suggestions

This is a comparative study among Businessmen and Salaried employees for identifying their financial smartness and their behaviour. From this study it is recommended that before managing our personal finance assign priority to the various factors that affect our financial decisions and also update our information about recent trends in the economy to reap maximum monetary benefits.

- Make a budget properly it will help to decrease the expenses.
- Make an investment for the amount saved.
- Avoid unnecessary expenses, it helps to increase the saving behaviour.
- Government will create awareness of saving & investment to salaried employees.
- All investment must be evaluated and appraised.
- Before making any investment, the investor must know the various features and principles of that investment.
- Investment should be a diversified to reduce the risk.

## Conclusion

The mind set of businessmen and salaried employees are quite different. Salaried employees are smart, qualified and fixed income groups. But business men earn more money and more choice because they had the capacity to manage smart persons and others money. As per this study, it is clear that businessman give more importance to investments in business and other motives, whereas salaried employees give importance to savings, and they save money in chit funds for the general motive of House building/buying.

**"**Do not save what is left after spending, but spend that what is left after saving"

Warren Buffet

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