

## The Effect of Financial Literacy on Investment Decision Making in Southern Lebanon

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### Abstract

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This study examines the effect of financial Literacy on investment decision making among investors in South Lebanon. Financial literacy is expressed in terms of knowledge and awareness while investors' decision-making is described as the act of investors and the way they interpret, anticipate, investigate, and assess the steps and transaction for decision making. This includes investment risk, investment decision model and process. To achieve the research objective, a quantitative approach was applied in which 150 self-administered questionnaires were collected using convenience sampling. The sample includes customers of four different Banks in South Lebanon. The data was analyzed using SPSS software. Descriptive statistics were identified and proposed hypotheses were tested using Pearson correlation and multi-regression analysis. Results showed a positive significant relationship between financial literacy and investment decision making. Future studies are encouraged to expand the research to other regions in Lebanon over a longer time horizon in addition to applying other variables.

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## INTRODUCTION

The business world is developing, growing and expanding rapidly. In order to make revenues and gains in the future, investors or shareholders must be knowledgeable and qualified about investment decision so they can evaluate the potential investment and the most profitable business to spend their money based on their capital and returns, the time they will stick their money in long-term or short-term, the risk of investing in specific sector, and the opportunities they have. Musundi (2014) stated that investment decision is the consciousness of different alternative investment opportunities, investment securities and realization of the benefit that comes with investment (Akims & Jagongo, 2017). This is why it is significant for investors to be conscious of Financial Literacy to attain the most profitable decision in investing their money. Hogarth (2002) defined financial literacy as “the way people understand and use knowledge of basic financial concepts to plan and manage financial decisions as in insuring, investing, saving and budgeting” (Mugo, 2016).

As for the Lebanese Context, the investment environment suffers from enticement, fraud, corruption, outdated legislation, subjective “licensing decisions” and weak intellectual property rights (Chebib, et al., 2016). According to economic report vision issued by the Ministry of Economy (2018), over the last 40 years, Lebanon has not created substantial incremental wealth and has lagged other nations in the last 7 years. In addition, the Lebanese economy has been going through a tough cycle, caused by a great volatile economy dependent on diaspora inflows rather than productive sectors, the corruption and fiscal challenges that make business environment uncondusive.

However, behavioral factors have been playing vital role in investment decisions making. For instance, the financial literacy and investment experience are supposed to be the significant reasons having an effect on risk tolerance and investment decisions (Awais, et al., 2016). Nonetheless, several studies have associated between the importance of the quality of decision making and the effectiveness of financial literacy,

Beal and Delpachitra (2003) discuss that possessing the skills of financial literacy permit people make a qualified investment decision and therefore to minimize the chance to be misled on financial matters. Hence, this study seeks to investigate the effect of financial literacy on investment decisions in the Lebanese Southern Province.

## LITERATURE REVIEW

### Introducing financial literacy

Financial literacy was developed by the “Organization for Economic Co-Operation and Development” OECD (2005) which states that: “Financial literacy is the combination of consumers ‘investors’ understanding of financial products and concepts and their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being.” (Madi & Yusof, 2018). In addition, Palm (2014) acknowledges that financial literacy means more than just understanding how things work but also includes making informed choices. Moreover financial literacy also defined as the process which “individuals use a combination of skills, resources, and contextual knowledge to process information and make decisions with knowledge of the financial consequences of that decision” (Edirisinghe, et al., 2017). In this meaning, financial literacy relates to the awareness of financial concepts there leading in the capacity to make knowledgeable assertive and convenient money-related options. All researchers agree that the ability to use the financial knowledge, make informed judgments, understand key financial concepts in order to manage the financial resources and making the effective decision whether through short-term or long-term investments, taking into consideration the changes in the economic world and its situations. However, the concept of financial literacy depends on the adjusted approach or is a component of the wideranging consumer awareness and protection process (Muizzuddin, et al., 2017).

### Investment decisions

Investment is the activity involved by people looking for positive rate of return, whom possess

some savings in order to impose them in capital assets or goods and services. Investors must determine how, when, where, and how much capital will be spent on investment opportunities to made the investment decision whether it was individual or management of an engaged organization (Bhalla, 1982). One of the important decision tools is the literacy that is used to strengthen the decision making and obtain a satisfactory return thus a fundamental and technical analysis are implementing to get a performed investment analysis. Various available options are detected after numbers of researches to indicate the costs and return before making the investment decision.

Moreover, investment decision is significant and dynamic in association with different decision that people are intending to make in lifetime for the future, so it is the principle that people want to know about money and be aware about the way it works, besides the availability of different financial products for investment and the concern about the flexibility in managing the financial matters. For a successful investment decision, investors must adapt totally and accurately the potential chances and these decisions ought not to be made in a surge. The incorrect investment decision can lead organizations even to insolvency. It is important to comprehend the fundamental thoughts of the investment decision to get the greatest incentive from the evaluation procedure.

According to Musundi (2014), the investment planning contains developing investment strategies including designing a systematic investment plan and developing an asset allocation strategy. In addition, (Mutswenje, 2014) declares that investment decisions are taken by investors who normally execute investment analysis by making use of essential and technical analysis, in addition to the judgment. In the other meaning, the investors' decisions are influenced systematically by the information structure and the factors in the market (Avram, et al., 2009).

### The Relationship between the Financial Literacy and Investment Decision Making

Madi and Yusof (2018) indicated that, "absence of an acceptable level of financial literacy causes investors to misinterpret data and what the

numbers mean". In addition, they stated that many individual investors have mistaken the subjective beliefs in solving financial issues and suffered from the mismanagement of cash by spending it in the wrong place. Similarly, Wolfe-Hayes (2010) claimed that "financial literacy has become a pressing and definite need for all categories of society, individuals, companies and government".

Empirically, Amisi (2012) found that financial literacy has a strong positive relationship on investment decision among pension funds managers in Kenya. Moreover, Musundi (2014) examined various types of risks that are taken into consideration in making investment decisions such as "market risks, liquidity risks, strategy risks and regulatory risks, which have a very great effect on the decisions". Accordingly, the following research framework is developed:

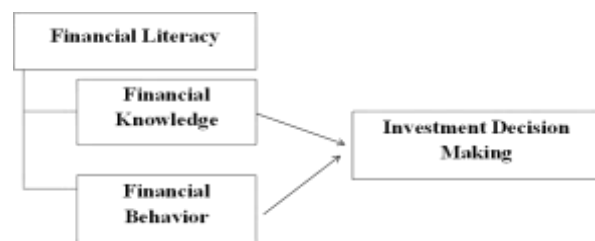


Figure 1. Research framework

Based on the above framework, two hypotheses were derived as follows:

H1: There is a positive relationship between financial literacy and investment decision making in the southern province in Lebanon.

H2: There is a significant effect of financial literacy on investment decision making in the southern province in Lebanon.

## METHODS

This is a correlational research since it studies the correlation among the variables mainly financial literacy and the investment decision making in south Lebanon. Since, behavioral finance is a field of which quantitative methodology is easily applied to assess the attitudes and opinions of respondents objectively thus, a quantitative methodology was applied in order to reach larger sample of respondents. To reach the target investors, the researcher visited different

commercial Banks in the South region and distributed self-administered questionnaires. Hence, the research methodology was based on a convenience sample that is “a type of non-probability sampling method where the sample is taken from a group of people easy to contact or to reach” (Saunders et al., 2012). Consequently, 150 respondents participated in this survey among of who visited the BLC Bank, Audi Bank, Credit Libanais Bank, and Fransabank in South Branches. Structured, self-administered questionnaire was randomly distributed. The questionnaire used five Likert-scale statements, ranging from 1 ‘strongly disagree’, to 5 ‘strongly agree’. The statements were selected from valid and reliable previous surveys (OECD, 2011; Janor et al., 2016; čonková, 2014).

**RESULTS AND DISCUSSION**

**Descriptive Statistics**

After collecting the questionnaires, primary data was analyzed by SPSS software. This descriptive statistical results show that the averages mean of financial literacy is 4 with standard deviation equal to 0.384. The respondents distributed between 63.3% of males and 36.7% of females. Moreover, the plurality of participants occupied bachelor degree 82.7%, while 4.7% held master’s degree, and 12.7% achieved their Phd level of education.

**Reliability and Validity Tests**

Cronbach's alpha is 0.757 for the 15 items, which indicates a high level of internal consistency for the scale with this specific sample. This value is greater than 0.7, which is the minimum required value of statistical significance. Moreover, Measuring of validity is made through exploratory factor analysis (EFA). The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy should be more than 0.5 and the Bartlett’s test of sphericity should be significant at  $p < 0.05$ . As table 1 below shows the results of validity, both values for financial literacy and investment decision making are greater than 0.5 which are 0.641 and 0.628 respectively, so the validity of data is approved.

**Table 1.** EFA results for validity

Constructs	No. of Items	KMO	Bartlett's Test of Sphericity		
			Approx. $\chi^2$	DF	Sig.
Financial Literacy	10	0.641	370.248	45	0.000
Investment Decision Making	5	0.628	98.460	10	0.000

**Correlation**

H1 assumed the presence of relationship between financial literacy and investment decision making, thus the Pearson Correlation between financial literacy and investment decision making showed in the table below is statistically significance ( $p = 0.00 < 0.01$ ) and the correlation coefficient  $r = 0.778 < 0.3$ . Therefore, there is relationship between these variables and  $H_1$  is accepted. The positive correlation exists by 77.8 %, between the two variables indicating the relationship between them.

**Table 2.** Correlation table between Financial Literacy and Investment Decision Making

		TotalFL	TotalID
TotalFL	Pearson Correlation	1	.778**
	Sig. (2-tailed)		.000
	N	150	150
TotalID	Pearson Correlation	.778**	1
	Sig. (2-tailed)	.000	
	N	150	150

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

**Regression Analysis**

Regression analysis was conducted to empirically determine whether financial literacy was a statistically significant determinant of the investment decision making. As shown in the model summary table 3, the goodness fit for the regression between financial literacy manufacturing and financial performance was significant. R squared equals to 0.605 which represents other factors are holding constant, 60.5 of the variations of financial literacy were explained by the variations in investment decision making.

**Table 3.** Model fit

Model Summary <sup>a</sup>					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.778 <sup>a</sup>	.605	.602	311	1.113

a. Predictors: (Constant), TotalFL

b. Dependent Variable: TotalID

While, ANOVA statistics in the Table 3 determine that the inclusive sample was considerable. The F statistics is 226.503, and this number represents the significant effect of financial literacy on investment decision making. Additionally, the regression model is a good fit of the data and there is a statistical significance since the p value 0.000 is less than 0.05. Moreover, the second hypothesis H<sub>2</sub> proposed that there is financial literacy significantly affects the investment decision making. Based on the tables below the regression coefficients and the chi-square tests indicate the positive effect of the independent variable, financial literacy, on the dependent variable, investment decision making. The p value 0.000 < 0.05, therefore the H<sub>2</sub> is accepted.

**Table 4.** ANOVA results

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	21.941	1	21.941	226.503	.000 <sup>b</sup>
	Residual	14.337	148	.097		
	Total	36.278	149			

a. Predictors: (Constant), TotalFL  
 b. Dependent Variable: TotalID

**Table 5.** Coefficients

Model	Coefficients <sup>a</sup>					95.0% Confidence Interval for B		Collinearity Statistics	
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Lower Bound	Upper Bound	Tolerance	VIF
	B	Std. Error	Beta						
1 (Constant)	-.056	.271		-.185	.853	-.585	.485		
TotalFL	1.012	.067	.778	15.050	.000	.879	1.145	1.000	1.000

a. Dependent Variable: TotalID

**Table 6.** Chi-Square test results

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	386.702 <sup>a</sup>	187	.000
Likelihood Ratio	242.712	187	.004
Linear-by-Linear Association	90.117	1	.000
N of Valid Cases	150		

a. 216 cells (100.0%) have expected count less than 5. The minimum expected count is .01.

**CONCLUSIONS**

In conclusion, “investment decision making” process is affected by different “behavioral factors” and at different impacts’ degree as well as the knowledgeable background and financial Literacy. Thus, this research was conducted to examine the relationship and to find how financial literacy has an effect on investment decision making in the

southern Lebanon. Indeed, the aim of this research has been analyzed to find a lack in the effectiveness of investment decision-making based on financial literacy. In order to make an operative investment decisions, an investor has to select the accurate alternative among several ones at the proper time (Akims & Jagongo, 2017). Consequently, when “making investment decisions”, it is desirable that this decision can be taken by exhausting a number of means for assessing the efficiency of investment. However, the compromise must take place when it is not possible to come to a single solution (Puškaa, et al., 2018). On the other side, the market participants are conscious that their knowledge and literacy is lacking and try to make alterations to replicate successive facts and investigation. Yet, these modifications create effective outcomes and results consequently, an accurate, efficient and proper strategy of investment decision. Finally, investors can make decisions based on perceived gains as an alternative of perceived losses.

By consequence, this study arranges confirmations that are coordinated with the previous stated hypotheses. Data analysis documents proved the dependence between “financial literacy and investment decision making” and the existence of a positive meaningful relationship between the mentioned two variables. The confirmed data support also a strong advocacy that the higher financial literacy reached the better investment decision making due to the quality of information based to make the investment decision, the awareness of all or main dimension of investment sector, and the rationality to choose the suitable decision for the investor’s capacity and needs.

However, applying awareness of financial literacy and spreading the possibility of studying it will definitely lead to upgrade the investment decision making by investors. Hence, a comprehensive analysis of how investors make daily investment decisions must be taken as well as the way of making those decisions; the standard of classification investment options should be applied by using methods of “multi-criteria analysis” in order to make investment decisions. However, it is necessary to examine how individual information normalization has a part in investment and offers conclusions that are best for this decision-making

process. The study advises investors to go through improving and developing their financial literacy based on its effects on the investment decision-making, and recommends that investors need to analyze the investment elements wisely using the financial literacy that they possessed before making investment decision. Moreover, investors must be able to assess and analyze the stocks and markets index because they affect the execution of the share on the market.

In addition, investors must interpret all the variables in the market rather than taking into consideration only one variable. Finally producing a diversifying portfolio is a must so investors must make a portfolio that contains various shares from various sectors and companies which will lead to a risk minimizing. Investors and companies must keep an eye on developing and enhancing their financial literacy and knowledge since higher financial literacy is positively related to successful investment decision.

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