

The Influence of Financial Literacy and Financial Behaviour on MSME Entrepreneurship in Madurai district

¹U. Nagarani, ²Dr.K. Ramasamy

¹*Research Scholar, Bharathiyar University Sri Krishna Arts and Science College Coimbatore*

²*Assistant Professor & Research Supervisor Sri Krishna Arts and Science College Coimbatore.*

Abstract—It examines the influence of financial literacy and financial behaviour on MSME entrepreneurs in Madurai District. Financial literacy refers to the knowledge and skills required to make effective financial decisions, while financial behaviour relates to how individuals manage and use their financial resources. The study aims to assess the financial literacy levels of entrepreneurs, analyze their financial behaviour, and identify the relationship between these factors. Primary data were collected through a structured questionnaire from MSME entrepreneurs using a stratified random sampling method. The findings indicate that financial literacy significantly influences financial behaviour and helps entrepreneurs make better business and investment decisions. Behavioural factors such as confidence, risk perception, mental accounting, self-attribution, and herding behaviour also affect financial decision-making. The study concludes that improving financial literacy through education, training, and awareness programs can enhance financial behaviour and contribute to the growth and sustainability of MSMEs.

Index Terms—Financial Literacy, Financial Behaviour, MSME Entrepreneurs, Entrepreneurship, Madurai District.

I. INTRODUCTION

Today's financial environment is increasingly challenging due to rising financial demands and economic uncertainty. Effective financial management is essential for both individual and national economic growth, as it involves the efficient use and development of financial resources. To manage finances successfully, individuals need financial competence, which depends on both financial literacy and financial behaviour. Financial literacy refers to the knowledge and skills required to make informed financial decisions, while financial behaviour is influenced by personal attitudes, habits, and emotional biases that affect decision-making. Together, these factors play a

crucial role in how people manage, invest, and utilize their financial resources. Although considerable research has examined financial management among individual investors, limited attention has been given to entrepreneurs, who contribute significantly to economic development by generating employment and supporting national income. Therefore, this study seeks to examine the relationship between financial literacy and financial behaviour among entrepreneurs and identify potential gaps in their financial knowledge and practices.

BEHAVIORAL FINANCE

Behavioural finance is a modern approach that extends traditional finance theories by incorporating psychological and emotional factors into financial decision-making. While traditional finance assumes that investors act rationally and that markets operate efficiently, behavioural finance recognizes that individuals often make decisions based on emotions, cognitive biases, and mental shortcuts known as heuristics. Closely related to behavioural economics, which studies irrational economic behaviour and market anomalies, behavioural finance focuses specifically on how these biases influence financial choices. As a result, it provides a more realistic understanding of investor behaviour and explains why financial decisions do not always align with the assumptions of standard financial theories.

FINANCIAL LITERACY

Financial literacy refers to an individual's ability to understand, evaluate, and effectively manage financial resources to achieve financial well-being and economic security for themselves, their families, and their businesses. It encompasses the knowledge, skills, and confidence required to make informed financial decisions, use financial products and services appropriately, and maintain sound financial practices. In essence, financial literacy enables individuals to apply financial knowledge effectively in managing income, savings, investments, and other financial activities.

ENTREPRENEURSHIP

Entrepreneurship is the process of creating economic value through the innovative use of existing resources, ideas, and opportunities. Entrepreneurs are individuals who introduce new combinations of products, services, or methods, transforming available resources into valuable outcomes. Entrepreneurship plays a significant role in driving economic growth, innovation, and employment generation. Successful entrepreneurs recognize the importance of effective financial management and carefully plan to meet both current and future financial commitments while adapting to unexpected challenges. They are typically characterized by strong commitment, goal orientation, a willingness to take calculated risks, continuous learning, and a positive mindset. Additionally, successful entrepreneurs often demonstrate self-confidence, optimism, resourcefulness, problem-solving abilities, and resilience, which enable them to overcome obstacles and sustain business growth.

II. OBJECTIVES OF THE STUDY

1. To examine the financial behaviour of MSME entrepreneurs
2. To measure the financial literacy of entrepreneurs in MSMEs
3. To examine the relationship between financial behaviour and financial literacy among respondents.

III. RESEARCH METHODOLOGY

The present study focuses on Micro, Small, and Medium Enterprise (MSME) entrepreneurs in Madurai District, Tamil Nadu. MSME entrepreneurs from various sectors within the district are included in the study. The research covers both newly established and well-established enterprises to ensure a comprehensive understanding of the entrepreneurial landscape in the region.

Sample Size

The study relies on primary data gathered through a survey method using a carefully designed questionnaire. A stratified random sampling technique is employed to collect the data, and respondents are selected systematically from different strata to ensure adequate representation of the population.

Sector-wise Distribution of MSMEs in Madurai District

Sector	Number of MSME Units
Manufacturing	31,467
Services	1,079
Trade	Not separately reported
Total	32,546

Secondary Data

The study utilizes secondary data collected from diverse sources such as academic journals, magazines, books, reports, newspapers, periodicals, scholarly articles, research papers, websites, company publications, manuals, and booklets. These sources provided relevant information to support and strengthen the research findings.

IV. LITERATURE REVIEW

According to Ranjit Singh (2010), behavioural finance has emerged as an important field that enhances financial decision-making by incorporating psychological and emotional factors into financial analysis. The study highlights the growing significance of behavioural finance in understanding investor behaviour and improving financial outcomes. Furthermore, De Bondt, Muradoglu, Shefrin, and Staikouras identified three fundamental building blocks of behavioural

finance: investor sentiment, behavioural preferences, and limits to arbitrage. Investor sentiment explains the errors and biases that influence investment decisions, while behavioural preferences focus on individuals' attitudes toward risk and return. The concept of limits to arbitrage suggests that market prices may not always reflect true values because various constraints prevent arbitrage activities from correcting pricing inefficiencies. Together, these components provide a comprehensive framework for understanding financial behaviour and market dynamics.

INFLUENCE OF PERSONAL AND INVESTMENT DETAILS OF ENTREPRENEURS ON THEIR FACTORS TOWARDS FINANCIAL BEHAVIOR

Table 1: One-Way ANOVA Results for Behavioural Finance Variables

Variables	Sum of Squares (Between Groups)	df	Mean Square	F Value	Sig.	Result
CF	20.539	1	20.539	27.608	0.000	Significant
RISK	1.317	1	1.317	1.854	0.174	Not Significant
MENTAL	4.259	1	4.259	4.236	0.040	Significant
ATTRIB	9.653	1	9.653	7.522	0.006	Significant
BS	2.829	1	2.829	1.055	0.305	Not Significant
HERD	0.813	1	0.813	0.993	0.319	Not Significant

Source: Computed from Primary Data

Interpretation

The One-Way ANOVA test was conducted to examine whether significant differences exist among the groups with respect to behavioural finance variables. The results indicate that Confidence Factor (CF), Mental Accounting (MENTAL), and Attribution Bias (ATTRIB) have p-values less than 0.05, indicating statistically significant differences between the groups. Hence, the null hypothesis is rejected for these variables. Conversely, Risk Perception (RISK), Belief System (BS), and Herding Behaviour (HERD) have p-values greater than 0.05, indicating that no significant differences exist between the groups. Therefore, the null hypothesis is accepted for these variables.

Influence of Educational Qualification on Factors of Financial Behavior

Variables	Sum of Squares (Between Groups)	df	Mean Square	F Value	Sig.	Result
CF	44.187	3	14.729	20.942	0.000	Significant
RISK	38.959	3	12.986	20.167	0.000	Significant
MENTAL	9.058	3	3.019	3.018	0.029	Significant
ATTRIB	55.579	3	18.526	15.401	0.000	Significant
BS	53.168	3	17.723	6.824	0.000	Significant
HERD	9.302	3	3.101	3.846	0.010	Significant

Interpretation

The One-Way ANOVA results indicate that all six behavioural finance variables (CF, RISK, MENTAL, ATTRIB, BS, and HERD) have p-values less than 0.05. Therefore, statistically significant differences exist among the groups for all variables. The null hypothesis is rejected in each case.

V. FINDINGS, SUGGESTIONS AND CONCLUSIONS

To Study the Financial Behaviour of MSME Entrepreneurs

The findings of the study reveal that various financial behaviour variables, heuristics, and behavioural biases significantly influence entrepreneurs in managing both personal and business finances. Factors such as confidence, risk aversion, mental accounting, self-attribution, herding behaviour, bootstrapping, and investment pornography affect the way entrepreneurs perceive financial opportunities and make financial decisions. These behavioural factors are interconnected and often influence one another, thereby shaping the overall financial behaviour of entrepreneurs. The study highlights that financial behaviour plays a crucial role in determining the effectiveness of financial management practices and ultimately impacts the financial well-being and business performance of entrepreneurs.

To Identify Financial Literacy among MSME Entrepreneurs

Financial literacy plays a vital role in improving the quality of financial decision-making among entrepreneurs. It encompasses financial education, awareness of government subsidies and incentives, and knowledge related to business operations. Financial education helps entrepreneurs understand financial fraud and manage financial risks effectively. The study found that middle-aged entrepreneurs possess higher levels of financial education compared to younger and older entrepreneurs, while entrepreneurs from rural areas often have limited financial literacy. Insufficient financial knowledge may lead entrepreneurs to become risk-averse and rely on herding behavior due to fear of financial losses. Furthermore, a lack of awareness regarding technological

advancements and fraud prevention can reduce confidence levels, causing entrepreneurs to depend on conservative financing approaches such as bootstrapping and restricting their activities within the existing scope of their enterprises. Overall, higher financial literacy enables entrepreneurs to make informed decisions, reduce behavioral biases, and improve business performance.

Relationship between Financial Behaviour and Financial Literacy

The study reveals that financial education significantly influences several behavioural factors, including risk perception, mental accounting, self-attribution, and herding behaviour among entrepreneurs. Similarly, business financial knowledge is associated with confidence, risk-taking behaviour, bootstrapping practices, and investment pornography. These findings indicate that financial literacy and behavioural factors are closely interconnected. Behavioural variables such as confidence, risk aversion, mental accounting, self-attribution, bootstrapping, investment pornography, and herding not only affect financial decision-making but also contribute to the development and application of financial literacy. Therefore, improving financial literacy can help entrepreneurs manage behavioural biases more effectively and make better financial decisions in both personal and business contexts.

VI. SUGGESTIONS

The study indicates that female entrepreneurs often exhibit lower confidence in investment-related decisions, highlighting the need for specialized confidence-building and entrepreneurial development programs organized by state and central government agencies. It was also observed that many female entrepreneurs are influenced by financial advertisements when making investment decisions, suggesting the importance of incorporating awareness programs on evaluating advertisements and financial information into entrepreneurship training initiatives. The findings further reveal that micro and small entrepreneurs require greater support in developing financial behaviour and financial literacy. Therefore, training programs focusing on financial education, government schemes, subsidies, incentives, and business knowledge should be strengthened. Entrepreneurs from rural areas were found to have limited business knowledge, emphasizing the need for targeted awareness and skill development programs to enhance their understanding of business management. Additionally, entrepreneurs should be encouraged to recognize that business outcomes are influenced by multiple factors rather than solely personal abilities or luck. Participation in workshops, training sessions, and mentoring programs can help reduce self-attribution bias and promote more rational financial decision-making.

VII. CONCLUSION

Behavioural finance has become an important area of study because it explains how psychological factors influence financial decisions. This study examined behavioural finance variables such as confidence, risk aversion, mental accounting, self-attribution, bootstrapping, investment

pornography, and herding, along with financial literacy factors including financial education, awareness of financial fraud, government subsidies and incentives, and business financial knowledge among MSME entrepreneurs. The findings show that financial literacy has a positive influence on financial behaviour, helping entrepreneurs make better personal and business financial decisions and reduce behavioural biases. Investment pornography was found to influence risk-taking behaviour and encourage self-attribution and herding tendencies. Male entrepreneurs were generally more confident and self-attributed than female entrepreneurs, while female entrepreneurs were more influenced by investment pornography. Older and more experienced entrepreneurs showed higher confidence, risk aversion, and self-attribution. Overall, both financial behaviour and financial literacy significantly affect financial decision-making among MSME entrepreneurs.

REFERENCES

- [1] Daniel Fernsdes, John.G.Lynch, Richard.G.Netemeyer, 2013. The effect of Financial literacy and financial education on downstream financial behavior
- [2] Dan Orr, Morgan Lewis, Bockius LLP, 2006, Anchoring information expertise and negotiation new insights from meta analysis.
- [3] Fenella Carpena, Shawn Cole, Jeremy Sharpiro, Bilal Zia, 2011, Unpacking the casual chain of financial literacy
- [4] Filip Minai Toma, 2015. Behavioral biases of the investment decisions of Romanian investors the Bucharest stock exchange
- [5] Farheen Btool Zadi, Muhammad, 2012, Influence of investor personality traits and demographics on overconfidence bias
- [6] Gustavo Barboza, Chad Smith and James Pasek, 2010, Impact of gender and academic performance difference on financial literacy
- [7] Robert MN Joroge, 2013. Relationship between financial literacy and entrepreneurial success in Nairobi Country Kenya
- [8] Sam Allgood and William.B.Walstd, 2011, The effects of perceived and actual financial knowledge on credit and behavior
- [9] Sharon.M. Danes and Heather.R.Haherman, 2007, Teen financial knowledge, self efficiency and behavior.
- [10] Tim Kaiser and Lukas Menkhoff, 2016, Does financial education impact financial behavior and if so when?
- [11] Victor stango, Jonne Yoong and Jonathan Zinman, 2016. The Quest for parsimony in behavioral economics New methods and evidence on threefronts
- [12] William.T.Succahi, 2013, Determinants of financial literacy of micro entrepreneurs in Davao city.