

Impact of Financial Literacy on Young Entrepreneurs in Bangalore City

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Abstract: The study explores the impact of financial literacy and financial inclusion on the entrepreneurial inclination of undergraduate students in Bangalore, focusing on autonomous institutions. It aims to understand the current scenario and the influence of financial knowledge on entrepreneurship, considering demographic factors. The research examines the pattern of financial literacy in India, emphasizing initiatives like the National Strategy for Financial Inclusion and government programs. The Financial Literacy Index categorizes financial literacy levels across states, with Karnataka exhibiting notable financial literacy, particularly in urban regions. The study identifies factors influencing the success of Micro, Small, and Medium-sized Enterprises (MSMEs) entrepreneurs in Bangalore, focusing on variables such as financial literacy, awareness of financial inclusion, and entrepreneurial willingness among undergraduate students. Key findings indicate a strong awareness of financial risks among students, with a need for increased knowledge about funding sources. Financial inclusion is perceived positively, but there is room for improvement in students' motivation to become entrepreneurs. Government policies receive favorable responses, but students emphasize the importance of additional entrepreneurial skills beyond financial aid. The study concludes with implications and recommendations, stressing the need for enhanced financial literacy programs, policy support, skill development, and collaborative efforts to foster a conducive environment for aspiring entrepreneurs. Limitations include the study's focus on Bangalore's undergraduate students, and future research could explore long-term entrepreneurial outcomes across diverse regions and educational contexts.

Keywords: *motivation, entrepreneurs, Medium-sized Enterprises (MSMEs), recommendations*

Introduction

A startup is an early-stage firm that provides unique items or services that are not available elsewhere on the market or are supplied in a substandard way. The educational institutions that provide technical or management education take sufficient measures to instil a strong sense of entrepreneurship in young individuals. A significant number of these highly motivated entrepreneurs achieve success as prosperous businesses, establishing a solid brand image for their products. However, there are also instances of failure, which result in substantial economic losses. There is a need for sustainable startups, which refers to the process of transitioning from a struggling launch to a thriving firm in a sustainable manner. In order to operate as a sustainable startup, companies must maintain a financially stable position over an extended period of time.

Over the last several decades, there has been a gradual expansion of the variety of financial goods and services available to people in all sectors of society. While past generations mostly used cash for their purchases, modern customers often rely on credit and debit cards, as well as electronic transfers, for their transactions. Due to the significant role of money in contemporary society, an individual's ability to achieve long-term financial prosperity may be severely compromised by a deficiency in financial literacy. The backslash character (\) is used to escape special characters or indicate a special meaning in programming languages and regular expressions. Adverse consequences such as poor credit, bankruptcy, property foreclosure, and other unfavourable outcomes may ensue.

Fortunately, there is already a greater abundance of resources accessible to anyone seeking to expand their knowledge of the financial industry.

An example of this is the Financial Literacy and Education Commission, which receives funding from the government and provides a diverse range of complimentary educational resources. Financial literacy encompasses a range of abilities, including creating a family budget, effectively managing and repaying loans, and evaluating the pros and cons of different credit and investment options. Proficiency in basic financial concepts such as compound interest and the time worth of money is often essential for acquiring these abilities.¹

Financial literacy includes both short-term and long-term planning. Financial literacy includes understanding one's prospective tax liabilities. This may be achieved by meticulously selecting investments now. This also includes being cognizant of the optimal investment techniques to use in preparation for retirement. Managing these elements requires financial literacy, including both day-to-day expenses and long-term budget projections. As previously said, it is crucial to plan and save sufficient funds to support a comfortable retirement while avoiding excessive debt that may lead to bankruptcies, defaults, and foreclosures.²

Aim Of The Study: The objective of this study is to have a thorough understanding of the present situation and the impact of financial literacy and financial inclusion on the entrepreneurial tendency of undergraduate independent students in Bangalore. In addition, the research intends to examine the influence of demographic factors on the significant variables of interest and provide practical strategies to tackle the identified difficulties.

Need For The Study: The advancement of entrepreneurs not only fosters personal development but also helps the overall advancement of the country. Promoting the establishment of new enterprises and startups is vital in India, where there is still considerable untapped market potential. Hence, it is crucial to inspire young people to shift from being job searchers to being employment creators. This research highlights the crucial need to provide education in financial literacy and financial inclusion to promote entrepreneurship among young people.

Statement Of The Problem: Entrepreneurship is becoming more acknowledged as crucial for tackling current economic and social issues. The younger generation, as a catalyst for originality and progress, may have a crucial impact on the field of entrepreneurship. Nevertheless, limited financial resources sometimes impede the establishment of new enterprises. To overcome this obstacle, it is necessary to prioritize the development of knowledge and understanding in financial matters, as well as ensuring that everyone has access to financial services and opportunities. Although there is some current research on this topic, there is a significant lack of information, especially when it comes to studying how financial literacy and inclusion contribute to college students' entrepreneurial choices in Bangalore.

Objectives Of The Study

1. **Impact of Financial Literacy:** Evaluate the influence of financial literacy on the inclination towards entrepreneurship.
2. **Role of Financial Inclusion:** Investigate the contribution of financial inclusion in shaping entrepreneurial decisions.
3. **Influence of Demographic Factors:** Examine how demographic factors affect the variables under study.
4. **Recommendations:** Provide actionable suggestions to overcome hindrances identified during the study.

Pattern Of Financial Literacy In India

In addition to the personal experiences of individuals involved in different banking and financial activities, financial literacy in India has been chiefly guided by policies and programs on financial inclusion implemented by the central and state governments. India's financial inclusion environment has seen several developments since the introduction of the National Strategy for Financial Inclusion (NSFI) in 2013. The most recent addition to the series was the NSFI 2020-2025, unveiled in August 2020, which promoted a 5C approach (Content, Capacity, Community-led, Communication, and Collaboration) to disseminate financial education across the nation. Furthermore, the Government of India has implemented various programs/initiatives such as "Pradhan Mantri Jan-Dhan Yojana (PMJDY), Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Mudra Yojana

(PMMY), Pradhan Mantri Shram Yogi Maan Dhan Yojana (PM-SYM), Atal Pension Yojana (APY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), and Pradhan Mantri Kisan Maan Dhan Yojana (PMKMY)" to enhance financial inclusion in the country. These initiatives not only facilitate the inclusion of marginalized communities into the dominant society but also provide them with opportunities to avail themselves of a diverse range of financial services provided by national commercial banks, private commercial banks, and financial institutions. Based on the World Bank's Findex 2021 Report, the percentage of people in India who have a formal bank account has increased from 35% in 2011 to 53% in 2014 and further to 80% in 2017 (World Bank, 2021).³

Financial literacy is a crucial aspect of an individual's financial knowledge, conduct, and attitude. This study uses financial behaviour to assess the extent of financial literacy, classifying it into four levels: illiterate, elementary, moderate, and advanced. Individuals with basic financial literacy, such as deposit accounts in commercial banks, RRBs, or cooperative banks, have a basic level of financial literacy. Household members with both deposit accounts and credit/debit cards have a moderate level of financial literacy. Those without these tools are considered financially illiterate.⁴

The Financial Literacy Index (FLI) is a quantitative measure that ranges from 0 to 1, with a score of 1 indicating high proficiency and 0 indicating the least proficient. FLI is categorized into three groups: low, medium, and high, encompassing variations in financial literacy across different regions. A FLI score of less than 0.33 is considered poor performance, a value between 0.34 and 0.53 is medium performance, and a value between 0.54 and 0.80 is excellent performance.⁵

The demographic distribution of individuals with varying degrees of financial literacy in both rural and urban areas is shown in Appendix A and B. The methodology used to calculate the Human Development Index (HDI) is also used to estimate the FLI.

Table 1: Financial Literacy Index (FLI) across States

Low (≤ 0.33)	Medium (> 0.34 to ≤ 0.53)	High (> 0.54)
Assam, Bihar, Manipur, Meghalaya, Mizoram, Nagaland, Uttar Pradesh	Andhra Pradesh, Arunachal Pradesh, Chhattisgarh, Delhi, Gujarat, Haryana, Jharkhand, Kerala, Madhya Pradesh, Maharashtra, Orissa, Pondicherry, Punjab, Rajasthan, Sikkim, Tamil Nadu, Telangana, Tripura, Uttaranchal, West Bengal	Chandigarh, Goa, Himachal Pradesh, Karnataka

Table 1 indicates that Karnataka exhibits a substantial degree of financial literacy in urban regions, whilst rural areas show a moderate level. This discrepancy may be attributed to the state's prominent position in the IT sector, with the majority of IT companies being in urban areas. This underscores the discrepancy in degrees of financial literacy across states in urban India.⁶

India is a significant marketplace for enterprises, with a large population and a strong focus on Information and Communication Technology. Bangalore is known as the Silicon Valley of India. With rising foreign investments, Indian enterprises are expanding globally. However, small-scale manufacturers and corporations face challenges in achieving success due to inadequate financial management. Despite significant technological advancements, many Indian firms still face failure due to inadequate financial management.⁷

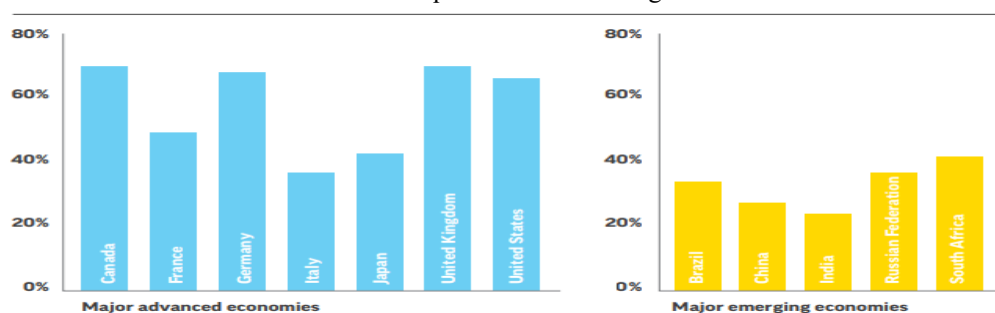


Figure 1: Percentage of Financial Literacy in Developed and Emerging Economies.

Financial Literacy: How Important Is It For Entrepreneurs?

Proficiency in accountancy may greatly benefit entrepreneurs. Indeed, it is of utmost importance for entrepreneurs in the first stages of a venture as they strive to develop a solid foundation for the sustainability and expansion of their organization.

Getting Established

Irrespective of the kind of business, the majority of founders, especially during the first stages of their firm, prioritize the task of recruiting and maintaining crucial clients and consumers.

In addition to sales and customer management, founders in the early phases of a business may also be responsible for delivering the final product to customers, especially in areas that need specialized expertise or abilities.

Meanwhile, who is responsible for reconciling the accounts and overseeing the financial affairs of the business? Without the presence of a dedicated accountant working full-time, the ability to do comprehensive financial analysis is severely limited.

Control

Entrepreneurs with a strong understanding of financial matters, such as balance sheets and profit and loss statements, have greater authority over their firms. This knowledge allows them to make more informed business decisions. While not necessary for all financial aspects, having a certain level of financial expertise allows for effective management of specific aspects of the organization's finances, increasing the chances of establishing a successful business. Familiarizing oneself with accounting principles also helps navigate potential challenges in the business.

Scalability

Entrepreneurs need sufficient funding to start and expand their businesses, including loans or credit lines. Effective communication with private equity companies, banks, and investors is crucial for their growth. A comprehensive understanding of basic financial tools is essential for entrepreneurs to devise strategies, manage long-term investments, and handle specific issues like unpaid customer invoices or financial losses.

Financial literacy empowers entrepreneurs to take accountability for each dollar, euro, or pound and prioritize expenses and cash flow indicators. This knowledge optimizes the likelihood of a small business's sustainability. Acquiring this expertise allows entrepreneurs to interact with experts responsible for ensuring the accuracy of their company's financial records, saving time and money. In summary, financial knowledge is essential for entrepreneurs to thrive and achieve profitable growth.⁸

An entrepreneur managing a company must be attentive to its vitality since all things have a finite lifespan. An individual will inevitably encounter difficulties if they are unable to comprehend the expiry date of a medication. Similarly, business owners who lack comprehension of their company's financial condition will inevitably encounter difficulties in due course.⁹

1. It enables suitable budgeting.
2. It permits managing credit.
3. Making decisions based on analysis is possible.
4. It promotes the expansion of the firm.
5. You have the power because of that.

Financial Literacy And Entrepreneurial Intention

Financial literacy is the understanding of financial principles and their application in making prudent financial decisions. It enhances individuals' understanding of business prospects, risk management skills, and market expertise, promoting entrepreneurship and financial gains. Lack of financial literacy can hinder new initiatives, as it informs entrepreneurs about the necessary financial resources to support their business. Insufficient financial literacy can lead to increased borrowing expenses, higher debt, and unfavourable financial conduct and business investment. A high level of financial literacy is believed to lead to a better understanding of finance and its financial implications.¹⁰

Furthermore, financial literacy plays a crucial role in aiding aspiring entrepreneurs in enhancing their financial decision-making abilities, discern superior sources of financing for their ventures, effectively handle their businesses' budgets, and make astute strategic company investment choices. Furthermore, it facilitates the development of entrepreneurial aptitudes, such as identifying and exploiting viable market prospects for company

ventures. Individuals with a greater level of financial literacy are more inclined to make prudent choices while engaging in high-risk business investing endeavours. They are more inclined to engage in a wider range of financial services and products, as well as to save and invest.

Financial literacy is considered an intangible resource for entrepreneurial firms, as per the resource-based theory (RBV). A substantial degree of financial literacy among individuals, especially young people, may encourage entrepreneurial endeavours by fostering autonomy, drive, and self-employment. Additionally, it can facilitate access to funding options for these persons.¹¹

Factors Influencing Success Of Msme's Entrepreneurs: A Study At Bangalore City

Variables of the Study: This study primarily focuses on the dependent variable of entrepreneurial willingness. The independent variables being examined are the factors of financial literacy and awareness of financial inclusion, which are being considered at the same time. The analysis focuses only on undergraduate students enrolled at an independent college located in the city of Bangalore.

Limitations of the Study: The scope of this research is limited to undergraduate students attending autonomous institutions in Bangalore city, and its conclusions may not be generally generalizable to other areas. The research relies only on the views collected from students as the primary source of data.

Analysis and Interpretation: The examination focuses on comprehending the influence of financial literacy and financial inclusion on the inclination to engage in entrepreneurship among college students. In order to get significant and valuable conclusions, researchers have used many statistical measures, including central tendency, t-test, ANOVA, correlation, and Structural Equation Modeling (SEM) route analyses. The coming sections will provide and explain the data obtained from this analysis.

Table 1.1 Mean & Standard Deviation of Impact of Financial Literacy on Entrepreneur Willingness

Measuring Variables	Mean	S. D
I have enough knowledge to raise capital for starting the business.	3.98	0.990
I am not aware of the monetary rules & regulations involved in the starting of any new project/ business.	4.05	0.916
I am aware of the tax and other financial benefits of starting a startup in SEZ.	3.95	0.989
I am aware of the sources of raising finance for a new startup	3.36	0.658
I am aware that starting a business is about taking and managing financial risk, and I am confident about that.	4.33	0.472

Table 1.1 shows that students have a clear understanding that starting a business involves financial risk, and they recognize the importance of managing it. This is evident from the mean score of 4.33 and a standard deviation of 0.472. Additionally, the data indicates that students lack awareness of the monetary rules and regulations associated with starting new projects, as reflected by a mean score of 4.05 and a standard deviation of 0.916. The factor with the lowest consideration was the awareness of sources for raising finance for a new start. This factor had a mean value of 3.36 and a standard deviation of 0.658. These statistics indicate that students lack sufficient knowledge about raising funds to start a new business and are also unaware of government rules and regulations related to this matter.

Table 1.2 Mean & Standard Deviation of Impact of Financial Inclusion on Entrepreneur Intention

Measuring Variables	Mean	S D
I am motivated to become an entrepreneur from the avenues available to finance startups.	3.51	0.625
I have enough knowledge about the financial and non-financial schemes which promote entrepreneurs	3.89	0.984
The financial innovation made borrowing funds readily accessible to start a new business	3.81	1.057
I know a few of the financial institutions that support and assist in the arrangement of funds for a new startup.	4.19	0.880
The current financial inclusion development & accessibility led to entrepreneurship development.	4.39	0.985

The study found that students believe that financial inclusion and development contribute to entrepreneurship development, with a mean value of 4.39 and a standard deviation of 0.985. However, they also acknowledge the limited number of financial institutions that offer support for new startups, with a mean value of 4.19 and a standard deviation of 0.880. The lowest consideration was the motivation of students to become entrepreneurs, with a mean value of 3.51 and a standard deviation of 0.625, influenced by the availability of financing options. Despite the availability of financial services and goods, students are not convinced to pursue entrepreneurship.

Table 1.3 Mean & Standard Deviation of Intention of Entrepreneurship Decision.

Measuring Variables	Mean	S D
Government policies and schemes motivate the youth to become entrepreneurs.	3.99	0.813
I want to be an entrepreneur as it is easy to arrange finance without any hindrance within a period of time.	3.54	0.611
The intention to become an entrepreneur purely depends on the passion, not on any other specific monetary factors.	3.44	0.584
To become an entrepreneur, financial aid only is not sufficient; there is a need for other entrepreneurial skills	4.33	0.470
The financial risk involved, lack of knowledge, and speculative market are some of the main hurdles stopping the youth from becoming entrepreneurs.	4.19	0.661

The data in Table 1.3 reveals that students believe that financial aid alone is not enough to become entrepreneurs. They also value other managerial skills as essential. Obstacles like risks, lack of knowledge, and market uncertainty are identified as reasons why young people are not planning to become entrepreneurs. The main issue is that students disagree on whether entrepreneurial decisions are solely based on passion and that monetary concerns also play a significant role. The primary challenges for new startups include the unpredictable nature of business environments and the absence of entrepreneurial abilities.

Conclusion

The study delves into the intricate relationship between financial literacy, financial inclusion, and the entrepreneurial aspirations of undergraduate autonomous students in Bangalore. The following key findings and insights emerge from the comprehensive analysis:

1. Financial Literacy Impact:

- Students exhibit a strong awareness of the financial risks associated with entrepreneurship, reflecting a high level of confidence in managing these risks.
- However, there is a notable gap in knowledge regarding the sources of raising finance for a new startup, indicating a need for enhanced financial education in this area.

2. **Financial Inclusion Influence:**

- Current developments in financial inclusion and accessibility are perceived positively by students, with a consensus that these factors contribute to entrepreneurship development.
- Knowledge about financial institutions supporting fund arrangements for startups is higher, suggesting a favourable environment for accessing financial resources.

3. **Entrepreneurship Decision Factors:**

- Government policies and schemes receive a favourable response, with students acknowledging their motivational impact on youth entrepreneurship.
- The study highlights that financial aid alone is not sufficient for aspiring entrepreneurs; the acquisition of additional entrepreneurial skills is deemed crucial.
- The perceived hindrances to entrepreneurship include financial risks, lack of knowledge, and challenges posed by speculative markets.

Implications and Recommendations:

- **Educational Initiatives:** Strengthening financial literacy programs to bridge gaps in knowledge about funding sources for startups.
- **Policy Enhancement:** Continued support and promotion of government policies and schemes to motivate and facilitate youth entrepreneurship.
- **Skill Development:** Emphasis on holistic entrepreneurial skill development beyond financial aid, addressing challenges related to risk management and market dynamics.
- **Collaborative Efforts:** Encouraging collaboration between educational institutions, financial institutions, and government bodies to create a conducive ecosystem for aspiring entrepreneurs.

Limitations: The study's focus on undergraduate students in Bangalore's autonomous colleges might limit the generalizability of findings to other regions or educational contexts. Additionally, the reliance on self-reported data from students may introduce response biases.

Future Research: Future research could explore the long-term entrepreneurial outcomes of students, considering the interplay between financial literacy, inclusion, and the practical challenges faced by entrepreneur's post-startup. Comparative studies across different regions and educational institutions could provide valuable insights into broader trends.

In conclusion, addressing the identified gaps in financial literacy, fostering a supportive financial environment, and promoting a holistic approach to entrepreneurship are critical steps toward nurturing a new generation of financially savvy and successful entrepreneurs in Bangalore and beyond.

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