The Impact of Financial Literacy on Individual Investment Decisions: Evidence from North Central Province of Sri Lanka

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ABSTRACT

Financial literacy is important as individuals assume greater responsibility for managing savings, investments, and long-term financial security in an increasingly complex and digital financial environment. This study examines the relationship between financial literacy dimensions and individual investment decisions among income-earning adults employed in private-sector organizations in the North Central Province of Sri Lanka. Specifically, it examines financial knowledge, financial behavior, financial attitude, and digital financial literacy while controlling for monthly income and educational level. A quantitative approach and cross-sectional design were adopted. Primary data were collected using a structured questionnaire from 150 employees in the Anuradhapura and Polonnaruwa districts. Following data screening, 149 valid responses were retained for analysis. Each of the five constructs was measured using six five-point Likert-scale statements. Data were analyzed using descriptive statistics, Cronbach's alpha, the Kaiser–Meyer–Olkin measure, Bartlett's test of sphericity, Pearson correlation, and hierarchical multiple regression. The main-survey Cronbach's alpha values ranged from 0.922 to 0.948, indicating high internal consistency. All four financial literacy dimensions were positively correlated with individual

investment decisions. In the final regression model, financial attitude was the strongest predictor ($\beta = 0.284$, $p < 0.001$), followed by financial knowledge ($\beta = 0.256$, $p = 0.001$), digital financial literacy ($\beta = 0.252$, $p < 0.001$), and financial behavior ($\beta = 0.210$, $p = 0.001$). Monthly income and educational level were not statistically significant in the final model. The model explained 79.8% of the variance in individual investment decisions ($R^2 = 0.798$; adjusted $R^2 = 0.789$). The findings highlight the relevance of traditional and digital financial literacy dimensions to self-reported investment decision-making among private-sector employees in the study area.

Keywords: *Digital Financial Literacy, Financial Attitude, Financial Behavior, Financial Knowledge, Investment Decisions*

1. INTRODUCTION

Financial literacy is important as individuals make decisions about savings, investments, retirement planning, and financial risks. It includes not only financial knowledge but also the attitudes and behaviors needed to apply that knowledge (Huston, 2010; OECD,2023). Financial literacy may help individuals evaluate investment opportunities, risk, return, and diversification (Lusardi & Mitchell, 2014; Van Rooij et al., 2011). Investment decisions influence wealth accumulation and financial security. Van Rooij et al. (2011) linked financial literacy with stock-market participation. The growth of digital financial services also increases the relevance of digital financial literacy (Morgan et al., 2019; Lyons & Kass-Hanna, 2021). Sri Lankan studies have examined different populations: undergraduates in the Western Province (Kumari, 2020), individual investors in Jaffna (Balagobei & Prashanthan, 2022), Colombo Stock Exchange investors (Thilakarathna & Rajakaruna, 2022), and accounting and finance undergraduates (Wijethunga & Yamuna, 2023). The present study focuses on private-sector employees in Anuradhapura and Polonnaruwa and includes digital financial literacy with three traditional dimensions. This is a population- and location-specific contribution, not a claim that digital financial literacy has never been studied in Sri Lanka.

2. AIMS/OBJECTIVES

The main objective was to examine the relationships between financial literacy dimensions and individual investment decisions among income-earning adults employed in private-sector organizations in the North Central Province of Sri Lanka. The specific objectives were to examine the relationships of (1) financial knowledge, (2) financial behavior, (3) financial attitude, and (4)

digital financial literacy with individual investment decisions. Monthly income and educational level were included as control variables to assess whether the relationships remained statistically significant after accounting for these characteristics.

3. THEORY

The Theory of Planned Behavior links attitudes and behavioral intentions with behavior (Ajzen, 1991), supporting the examination of financial attitude. Human Capital Theory views knowledge and skills as resources that support information processing and informed decisions (Becker, 1964). Financial Socialization Theory explains how financial knowledge, attitudes, and behaviors develop through interactions with family, peers, education, workplaces, and financial institutions (Danes & Yang, 2014). Digital services may also contribute to digital financial literacy. In the analytical model, financial knowledge, financial behavior, financial attitude, and digital financial literacy are treated as four parallel independent variables. Digital financial literacy is included as a fourth predictor; the study does not estimate a separate higher-order financial literacy construct. Individual investment decisions are the dependent variable, while monthly income and educational level are control variables.

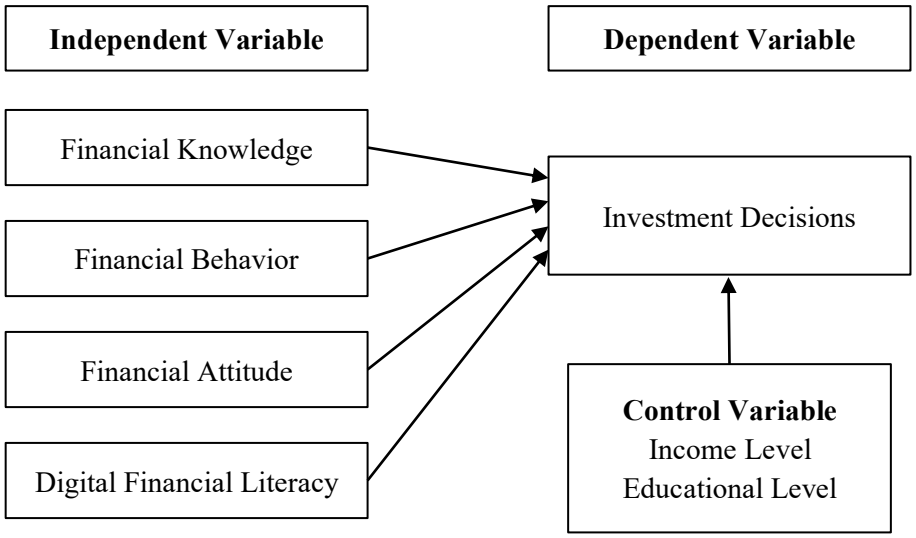

Figure 1. Conceptual Framework

Source: Authors constructed, 2026

The following directional hypotheses were examined:

H_1: Financial knowledge is positively and significantly related to individual investment decisions.

H_2: Financial behavior is positively and significantly related to individual investment decisions.

H_3: Financial attitude is positively and significantly related to individual investment decisions.

H_4: Digital financial literacy is positively and significantly related to individual investment decisions.

4. METHODS

A quantitative approach with a deductive, cross-sectional research design was adopted. The target population comprised income-earning adults employed in private-sector organizations in the North Central Province, with the geographical scope limited to the Anuradhapura and Polonnaruwa districts. Because a comprehensive and updated sampling frame was unavailable, convenience sampling was used. A total of 150 structured questionnaires were collected. One incomplete questionnaire was excluded during data screening, leaving 149 valid responses for analysis.

Each of the five constructs was measured using six statements on a five-point Likert scale (1 = strongly disagree; 5 = strongly agree). Financial knowledge items covered interest rates, inflation, risk and return, diversification, time value of money, and comparison of investment alternatives. These items measured self-assessed knowledge, not objectively scored answers. Financial behavior covered budgeting, saving, expenditure monitoring, planning, emergency funds, and financial review. Financial attitude covered saving preferences, future orientation, discipline, risk, confidence, and the importance of investing. Digital financial literacy covered online banking, mobile payments, digital risks, data protection, digital investment information, and trust in digital platforms. Individual investment decisions were measured through self-reported practices, including analysis of opportunities, risk consideration, diversification, long-term goals, information seeking, and performance review. The dependent variable therefore reflects reported decision-making practices, not verified transactions or actual market participation.

Monthly income was recorded in four categories: below LKR 50,000; LKR 50,000–100,000; LKR 100,001–150,000; and above LKR 150,000. Educational level was recorded as diploma, bachelor's degree, master's degree, professional qualification, or other. These variables were entered as

controls in the regression model. The available research report identifies the response categories but does not provide the SPSS numeric value labels; consequently, no numeric coding scheme is asserted here. Cronbach's alpha assessed internal consistency. Main-survey values were 0.947 (financial knowledge), 0.936 (financial behavior), 0.922 (financial attitude), 0.948 (digital financial literacy), and 0.946 (individual investment decisions), all above 0.70. KMO values ranged from 0.878 to 0.915, and Bartlett's tests were significant (SPSS .000, reported as $p < .001$). These results support factorability; they are not confirmatory factor analysis (CFA), which was not reported.

Table 1. Reliability and Factorability Results for the Main Survey

Construct	Cronbach's alpha	KMO	Bartlett's test
Financial knowledge	0.947	0.878	$p < .001$
Financial behavior	0.936	0.906	$p < .001$
Financial attitude	0.922	0.891	$p < .001$
Digital financial literacy	0.948	0.915	$p < .001$
Individual investment decisions	0.946	0.887	$p < .001$

Source: Authors constructed, 2026

IBM SPSS Statistics Version 25.0 was used for descriptive statistics, Pearson correlation, and hierarchical multiple regression. Model 1 entered income and education; Model 2 added the four financial literacy dimensions. The source research report does not provide full diagnostic outputs (e.g., tolerance/VIF, residual plots, Durbin–Watson, or Cook's distance), so this manuscript does not claim that these assumptions were verified.

5. RESULTS

The final sample comprised 149 respondents. There were 60 males (40.3%) and 89 females (59.7%). In terms of age, 84 respondents (56.4%) were aged 20–29 years, 34 (22.8%) were aged 30–39 years, 24 (16.1%) were aged 40–49 years, and seven (4.7%) were aged 50 years or above. For monthly income, 45 respondents (30.2%) earned below LKR 50,000, 38 (25.5%) earned LKR 50,000–100,000, 19 (12.8%) earned LKR 100,001–150,000, and 47 (31.5%) earned above LKR 150,000. Pearson correlation analysis indicated positive relationships between all four financial literacy dimensions and individual investment decisions. Financial knowledge had the largest correlation ($r = 0.829$, $p < 0.01$), followed by financial attitude ($r = 0.806$, $p < 0.01$), financial behavior ($r = 0.763$, $p < 0.01$), and digital financial literacy ($r = 0.709$, $p < 0.01$).

Table 2. Pearson Correlations with Individual Investment Decisions

Financial literacy dimension	Correlation with IID
Financial knowledge	0.829**
Financial behavior	0.763**
Financial attitude	0.806**
Digital financial literacy	0.709**

*** Correlation is significant at the .01 level (two-tailed)*

Source: Authors constructed, 2026

In the hierarchical regression, Model 1, containing monthly income and educational level, had R = 0.386, R^2 = 0.149, and adjusted R^2 = 0.137; the model was statistically significant, F(2, 146) = 6.391, p = 0.002. After the four financial literacy dimensions were added, Model 2 had R = 0.893, R^2 = 0.798, and adjusted R^2 = 0.789; the model was statistically significant, F(6, 142) = 86.441, p < 0.001. The increase in R^2 was 0.649.

Table 3. Hierarchical Regression Model Summary

Model	R	R^2	Adjusted R^2	F	p
1: Control variables	0.386	0.149	0.137	6.391	0.002
2: Controls + four dimensions	0.893	0.798	0.789	86.441	0.001

Source: Authors constructed, 2026

Table 4. Coefficients of the Final Hierarchical Regression Model (Model 2)

Predictor	B	SE	β	t	p	Decision
Monthly income	−0.037	0.026	−0.062	−1.456	0.148	Not significant
Educational level	0.041	0.025	0.067	1.676	0.096	Not significant
Financial knowledge	0.260	0.080	0.256	3.257	0.001	H1 supported
Financial behavior	0.180	0.052	0.210	3.451	0.001	H2 supported
Financial attitude	0.305	0.072	0.284	4.230	0.001	H3 supported
Digital financial literacy	0.234	0.062	0.252	3.771	0.001	H4 supported

B = unstandardized coefficient; SE = standard error; β = standardized coefficient.

Source: Authors constructed, 2026

In Model 2, financial knowledge (B = 0.260, SE = 0.080, β = 0.256, t = 3.257, p = 0.001), financial behavior (B = 0.180, SE = 0.052, β = 0.210, t = 3.451, p

= 0.001), financial attitude (B = 0.305, SE = 0.072, β = 0.284, t = 4.230, p < 0.001), and digital financial literacy (B = 0.234, SE = 0.062, β = 0.252, t = 3.771, p < 0.001) had positive and statistically significant coefficients. Monthly income (B = −0.037, SE = 0.026, β = −0.062, t = −1.456, p = 0.148) and educational level (B = 0.041, SE = 0.025, β = 0.067, t = 1.676, p = 0.096) were not statistically significant.

6. DISCUSSION

All four dimensions were positively associated with individual investment decisions in the final model. Financial knowledge was significant (β = 0.256, p = 0.001), consistent with Van Rooij et al. (2011) and Shroff et al. (2024). However, this study used self-assessed knowledge rather than an objective quiz, so the measures are not directly equivalent. Financial behavior was significant (β = 0.210, p = 0.001), consistent with a multidimensional view that includes budgeting, saving, expenditure monitoring, and planning (Potrich et al., 2015; OECD, 2023). This is an association in the sample, not proof that each positive practice leads to investment.

Financial attitude was the strongest predictor (β = 0.284, p < 0.001). This aligns with the Theory of Planned Behavior (Ajzen, 1991) and research on attitudes, financial literacy, and stock-market participation (Sivaramakrishnan et al., 2017). Future orientation, discipline, confidence, and views about reasonable risk may therefore be relevant correlates of reported investment decisions. Digital financial literacy was significant (β = 0.252, p < 0.001), consistent with research on digital financial capabilities (Lyons & Kass-Hanna, 2021; Morgan et al., 2019). Because the scale includes online banking, mobile payments, and digital investment information, it measures broad self-reported digital capability rather than investment-platform use alone. Income and education were not significant after the four dimensions were entered. This does not establish that they are irrelevant in other populations. Findings are specific to this convenience sample and should be interpreted cautiously given the cross-sectional, self-reported design and unavailable diagnostic outputs.

7. IMPLICATIONS AND LIMITATIONS

The findings suggest that employee financial education may combine financial concepts, budgeting and saving, long-term planning, and safe use of digital services. Financial institutions may provide accessible guidance on investment risk, return, diversification, and digital security. Employers may consider workplace sessions on budgeting, investment decisions, and retirement planning. These recommendations follow from the observed associations; the study did not test any intervention.

Limitations include convenience sampling and restricted generalizability; a cross-sectional design that cannot establish causality; and self-reported measures that may involve recall, social-desirability, and common-method bias. Financial knowledge was self-assessed, and investment decisions were not verified against actual transactions. The model also omitted possible factors such as risk tolerance, investment experience, behavioral biases, financial self-efficacy, family influence, and access to financial information. The study was limited to Anuradhapura and Polonnaruwa districts.

Future research could extend the geographical and occupational scope, use longitudinal or probability-based designs, employ objective knowledge tests and verified investment measures, and report complete regression diagnostics. Overall, the study provides context-specific evidence of positive associations between the four literacy dimensions and self-reported investment decisions.

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