

The Influence of Financial Literacy on Small Business Success

***Dr. Naresh Kumar Agrawal**

Abstract

Financial literacy covers the knowledge, skills, and attitudes that allow individuals to make educated financial choices. In developing countries like India, insufficient financial literacy has appeared as a serious worry, especially among young and women, resulting in poor savings habits, weak financial planning, and limited access to official financial institutions. This study explores the level of financial literacy in India using a literature-based analysis, concentrating on its link with demographic and socio-economic parameters such as age, schooling, gender, and wealth. The study also underlines the difficulty faced by people in understanding complicated financial tools and notes the need for official educational approaches. Findings show that despite government steps and greater financial participation, financial understanding and behavioral skills remain low. Strengthening literacy via education and open policy initiatives is vital for encouraging sensible financial behavior and long-term economic stability.

Keywords: Financial Literacy, Financial Behaviour, Financial Decisions

Introduction

Financial literacy has grown as one of the most critical skills in an increasingly complicated global economy. It comprises a person's information, abilities, and attitude toward financial concerns, allowing people to make educated choices that improve their personal and economic well-being (OECD, 2011). In a world marked by numerous and complex financial goods, financial literacy functions as a protective tool that helps individuals to plan effectively, control risks, and attain stability. For a growing country like India—where a major part of the population comprises of youth—the need for financial knowledge becomes even more important. The Government of India, along with commercial organizations and the Reserve Bank of India (RBI), has created many financial education attempts to overcome the current literacy gap and achieve economic inclusion (Lavanya, 2015).

Financial knowledge goes beyond the basic giving of financial facts. It takes knowing how to handle, assess, and utilize financial resources to provide long-term welfare and protection for oneself, one's family, and one's company (Agarwal et al., 2010). The Organisation for Economic Co-operation and Development (OECD, 2011) describes financial literacy as "a combination of awareness, knowledge, skill, attitude, and behavior necessary to make sound financial decisions and ultimately achieve individual financial well-being." In this regard, financial literacy plays a vital part in choosing how people approach saving, borrowing, investing, and spending.

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In India, the level of financial literacy stays relatively low compared to foreign standards (Puneet & Medury, 2013). This lack of knowledge usually leads to poor financial planning, weak funds, and exposure to financial problems. The problems are worsened by socio-economic diversity, female inequality, and limited access to financial information. Women and rural communities, in particular, experience challenges due to lower education levels and limited access to official financial institutions (Mathavathani & Velumani, 2014). Thus, supporting financial literacy among these groups becomes crucial for sustainable economic growth and financial inclusion.

Moreover, financial knowledge greatly impacts financial behavior, especially in the context of young who form a big portion of India's work. With over 65% of the population under the age of 35, India's demographic dividend can only be utilized if its young residents possess the necessary financial skills to handle income, loans, and investments properly (Bhushan & Medury, 2013). The lack of financial knowledge usually results in bad decision-making, excessive debt, and vulnerability to financial scams, all of which endanger both individual well-being and national economic security.

The increased availability of complicated financial products and digital banking services has made financial decisions more sophisticated and risk-laden. Consequently, humans must be prepared with the cognitive and behavioral capabilities to traverse complex systems efficiently. The failure to manage personal finances responsibly not only impacts household stability but also has larger macroeconomic ramifications, altering the levels of savings, investment, and consumption throughout the economy (Gupta & Kaur, 2014).

This study, therefore, focuses on analyzing the condition of financial literacy in India using a literature-based method. It attempts to research the fundamental causes impacting financial awareness, analyze the link between financial literacy and socio-demographic characteristics, and identify the significant issues encountered by individuals—especially the youth—in managing their financial life. The findings strive to underline the need of developing financial literacy as a basis for attaining economic stability, sustainable growth, and inclusive financial involvement.

Objectives of the Study

1. To assess the level of financial literacy in India through a comprehensive review of existing literature and secondary data sources.
2. To understand the challenges and goals that young individuals in India face with regard to financial decision-making and behavior.
3. To analyze the relationship between financial literacy and various demographic as well as socio-economic factors such as age, gender, education, income, and employment status.

Research Methodology

This study is mostly descriptive and analytical in nature, relying exclusively on secondary data sources to measure the degree of financial literacy in India. The technique is based on a literature-based study, integrating information from previously published research papers, government reports, financial literacy surveys, and academic publications.

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Data for the study were gathered from reliable secondary sources such as the Reserve Bank of India (RBI), National Centre for Financial Education (NCFE), and studies published by researchers including Lusardi and Mitchell (2006), Marcolin and Abraham (2006), Schuchardt et al. (2008), Remund (2010), and Agarwalla et al. (2012). These sources gave thorough insights into the drivers, levels, and impacts of financial literacy across diverse demographic groups.

The study design involves a qualitative synthesis of literature, detecting patterns, trends, and knowledge gaps in financial literacy studies. This technique aided in identifying the links between financial literacy and socio-economic characteristics such as income, education, gender, and employment.

The study does not entail any primary data collecting or statistical analysis. Instead, it evaluates the current scientific information to evaluate how financial awareness and behavior impact personal financial results. This strategy enables for a complete picture of India's financial literacy condition and offers a framework for identifying policy-level measures for enhancing financial education.

Literature Review

The idea of financial literacy has evolved as a vital living skill in the 21st century, helping people to handle their funds successfully and make educated choices regarding savings, investments, and loans. It covers knowledge, attitudes, and behaviors that allow sensible financial decision-making (OECD, 2011). A review of existing research shows financial literacy as a multifaceted concept affected by schooling, socio-economic characteristics, gender, and access to financial information. According to Lusardi, Mitchell, and Curto (2006), financial literacy levels are closely linked with demographic characteristics such as schooling, income, and family background. Individuals from financially knowledgeable homes tend to show more trust and grasp of complex financial goods. This implies that financial literacy is not just an individual ability but also a socially transmitted skill, affected by early exposure and family habits.

Marcolin and Abraham (2006) tackled the methodological problem of defining and judging financial literacy, stressing the lack of standardized methods for worldwide comparison. Schuchardt et al. (2008) and Huston (2010) reiterated this problem, stressing the necessity for validated tools that can consistently measure literacy levels across various groups.

In India, the problem becomes greater relevance due to its population variety and economic inequality. Agarwalla et al. (2012) found that Indian financial awareness stays below worldwide levels, yet views toward saving and investing are rather positive. The study underlined that financial literacy includes both intellectual and behavioral components, meaning knowledge alone does not ensure wise decision-making.

Similarly, Bhushan and Medury (2013) tested financial literacy among paid people and found large variances across gender, education, and income levels. Men and those with greater schooling showed better knowledge of financial instruments, although geographical disparities were less important. This shows that enhancing education and access to financial training might have a bigger effect than location-based efforts.

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Gender inequality stay an ongoing issue. Bahadur (2015) and Ratna Achuta Paluri (2015) showed that Indian women fall behind males in terms of financial knowledge and trust. Women's financial choices usually come from emotional or familial reasons rather than rational financial thinking. Paluri's study stressed that gender-specific literacy programs are vital to equip women with the skills needed for autonomous financial management.

Globally, Sages and Grable (2009) showed that poor financial literacy linked with bad investment choices, excessive debt, and higher exposure to scams. Among youngsters, lack of knowledge about credit, interest, and saving methods adds to long-term financial instability. Ansong and Gyensare (2012) found that age, job experience, and mother education greatly impact young adults' financial knowledge, showing how literacy may be passed intergenerationally.

In India, despite financial inclusion steps such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), access to banking services alone has not ensured better financial knowledge. Gupta and Kaur (2014) noticed that many micro-entrepreneurs stay oblivious of financial planning and record-keeping, depending entirely on short-term financing. This shows that access without guidance fails to produce sustainable financial behavior.

Education has a key part in creating financial awareness. Tilak (1994) and Rao (2001) stated that education improves individuals' ability to understand financial knowledge and make sensible choices. Those with greater levels of schooling or job skills often show better grasp of saving, borrowing, and investing processes. Employment type also impacts literacy, with professionals and paid employees often scoring better than self-employed or unorganized workers (Narendra, 2015).

Socio-economic status is another key factor. Higher-income people have greater exposure to varied financial goods, allowing them to gain literacy via real experience. Conversely, persons with inadequate income or job instability commonly depend on informal borrowing arrangements, which limit possibilities for financial learning (Agarwal et al., 2010). This shows a cyclical relationship—financial knowledge helps wealth creation, but wealth also promotes learning through access to official organizations.

The sources of financial knowledge people rely upon considerably impact their decision-making. According to Mathavathani and Velumani (2014), persons who rely on professional advisers, financial magazines, or digital platforms show better literacy levels than those influenced by informal sources such as family and friends. Access to reputable and organized knowledge is thus a critical component of literacy progress.

Despite efforts by governing bodies such as the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), and National Centre for Financial Education (NCFE), the general literacy level in India remains unsatisfactory. These organizations have attempted projects to improve financial understanding, however their effect has been unequal due to disparities in education, income, and gender. The gap between knowledge and application continues to stay.

Overall, the evidence shows that financial literacy is not only about obtaining financial knowledge but about promoting behavior that supports long-term financial well-being. It is shaped by numerous

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linked factors—education, socio-economic position, gender, and access to financial resources. Bridging the reading gap requires a holistic approach spanning school changes, gender-sensitive training, internet literacy programs, and community-based awareness projects. By adopting these policies, India can support individual financial empowerment and add to better national financial stability.

Conclusion

Financial literacy is a major factor impacting individual well-being and state economic stability. In India, despite growing financial inclusion and market growth, a major part of the population—especially women and youth—continues to face difficulty in understanding and handling financial issues effectively (Bhushan & Medury, 2013; Agarwalla et al., 2012). The analyzed study show that inadequate financial literacy links to bad saving habits, high debt levels, and unwise financial choices. Efforts by the Government of India, RBI, and other organizations have improved financial access, but understanding and actual knowledge remain insufficient. Bridging this gap includes incorporating financial education into official coursework, backing community-based awareness programs, and building gender-inclusive literacy efforts.

In conclusion, financial literacy must be viewed not just as an economic skill but as a basic life ability. Strengthening it across all social and demographic groups may strengthen people, develop responsible financial conduct, and add to sustainable economic growth.

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