



HOLY CROSS COLLEGE OF CALINAN

CALINAN DAVAO CITY

**FACTORS AFFECTING THE FINANCIAL LITERACY OF SME
EMPLOYEES**

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Chapter 1

INTRODUCTION

Background of the Study

Financial literacy is a road to sustainability and it has an important responsibility to make sure that people, communities, industries and national economies are financially sustainable. Economic development and productivity are embedded in the financial literacy of individuals (Bryant,2020). The value of financial literacy in the growth of entrepreneurship and then in the sustainable development of society. The stability of both consumers and entrepreneurs, and for people of all ages, financial literacy is critical. The sooner the financial literacy is acquired the greater the value of its development (Rahmandoust,2020).

Financial literacy is noted to be low even in advanced economic system with well-developed financial markets. On average, about one third of the global population has acquaintance with the basic concepts that underlie everyday financial decisiveness (Lusardi and Mitchell, 2011 cited in Lusardi, 2019). In the report of the United States of America (USA) on the economic well-being of households, the Board of Governors of the Federal Reserve System found that many Americans are not prepared for retirement. A quarter indicate they have no retirement savings, and fewer than four in ten non-retirees feel their requirement savings are on track. Among people with self-directed retirement savings, about zero percent admit to experiencing low levels of confidence when making retirement decisions. As a matter of fact, the largest proportion of American workers unprepared for a serious financial crisis like Coronavirus pandemic. According to Teachers, Insurance, and Annuity Association (TIAA) institute research people who have reported having a high level of knowledge about personal finance, only 19% correctly answered questions about basic financial concepts (Zucchi, 2021). Even in the Scandinavian countries like Denmark, Norway, Sweden are at the top of the global list of financial education, with 71% of the population

are financial literate. Still, other European countries are not so economically aware. Places like Romania has 22%, Portugal has 26% and Italy has 37% lag behind in understanding about financial topics. In addition, literacy rates have declined further Eastern Europe with no country east of Hungary performing more than 50%. However, financial literacy scores are low even in regions where traditional education rates are already low, such as Africa and South America. Nonetheless, countries like the United States, where everyone might think they have financial literacy, have only 57% of financial literacy, similar to Ireland having 55% (Bondora, 2020).

MANILA, Philippines the Bangko Sentral ng Pilipinas (BSP) said that financial literacy and capacity need to be strengthened to help Filipino families cope with and recover from the socio-economic effects of a crisis such as the global pandemic of coronavirus. While on an online Financial Literacy Summit organized by The Global Financial Filipino Investors (TGFI), BSP Governor Benjamin Diokno said that the COVID-19 pandemic illustrated the need to be careful in managing finances for every person and household. He added that job cuts, company closures, loan liability payments, utility costs, medical expenses, mortgage, food and other everyday needs all cause stress. Just 23 percent of Filipino adults have accounts, data shows, whereas the most disadvantaged sectors do not have bank accounts where social assistance could be channeled easily. Almost half, or 48%, of adults have savings, but 68% hold savings at home. Over a third of Filipino adults are unable to fulfill their spending needs on a daily basis and use loans to deal with disasters. Additionally, he added the BSP is deepening its digital literacy initiative to improve cybersecurity awareness and media skills of Filipinos (Agcaoili, 2020). A study by Lucas (2018) stated that the average Filipino's level of financial literacy stays alarmingly low, an issue that begins with poor childhood literacy that persists until their adulthood according to the country's economic regulator. In the statement, the Bangko Sentral ng Pilipinas said that only three out of

seven financial literacy related questions referring to basic numeracy computing compounding economic growth and asset long term growth interests could be correctly answered by Filipino adult.

In a Sunstar Philippines article in 2019 a financial literacy advocate and a club member explained in an interview that most Dabawenos still do not understand how important financial literacy is in human development. She also stated during her Kapehan media forum that people don't realize how important it is to be financially literate in order to manage finances such as how people going to save, what particularly taking their emergency money and how they be able to do other advocacy activities. She also added that people should start educating themselves to become financial literate. An example of the correct use of finance is the 10-20-70 principle or the abundance formula of renowned financial mentor Bo Sanchez, which states that 10 percent of total proceeds are earmarked for charity or church, 20 percent for savings or investments and 70 percent for daily expenses (Sunstar, 2019).

Financial literacy enables an individual to comprehend and optimize their earnings regardless of their level of income. The researchers decided to collect knowledge based on this concept of what are the factors affecting financial literacy among employees in SME. Further, several studies have attempted to look at the various contributing factors affecting financial literacy but not necessary to the employees in SME. Nevertheless, there have been fewer literatures that have focused on this subject in terms of budgeting, personal financial management and investing. Hence, the researchers are eager to conduct a study that focuses what are the factors that affects financial literacy of employees in SME.

Statement of the Problem

The researcher aims to determine the Factors Affecting the Financial Literacy of SME Employees. Specifically, the researchers seek to answer the following question:

1. What is the level of financial literacy of the employees in small and medium enterprises in terms of:
 - 1.1 Budgeting
 - 1.1 Personal Financial Management
 - 1.2 Investing
2. What are the factors affecting the financial literacy of SME employees?
 - 2.1 Gender
 - 2.2 Age
 - 2.3 Family Background Status
 - 2.4 Income
 - 2.5 Education

Review Related Literature

In this chapter explains and discuss how each factors affects financial literacy of SME employees. The readers will look forward to see findings and summarizations from other published articles and researches relevant to the study.

The concept of Financial Literacy

Financial literacy refers to the ability to make sound financial decisions so that each individual can effectively manage and grow financial money. When individual is financially literate they can devote that money to a number of priorities at the same time, including not just recurring expenses but also investments and debt reduction (McGurran, 2019). It is also the understanding and application of personal finance principles such as budgeting, debt repayment, realizing the time/money trade-off, expense monitoring and retirement preparation among other things (Ritchie, 2020).

As claimed by Sujaini (2021) financial literacy is the ability to comprehend and efficiently apply a variety of financial skills such as personal financial management, budgeting and investing. Individuals that are financially literate become self-sufficient, allowing them to achieve financial stability. It is also necessitates familiarity with financial principles and concepts such as budgeting, compound interest, debt management, effective investment strategies and money-time value. The field depicts a person's money habits and expectations throughout to their day to day life. This knowledge will assist an individual in creating a financial road map that defines their revenue, expenditures and liabilities.

Moreover, according to the The Policy Circle (2021) financial literacy defines as the ability to use abilities and expertise to effectively manage one's financial resources for lifetime financial security. Financial literacy entails not only knowing financial facts, but also comprehending and applying that knowledge to area of their lives that depend on sound financial management: managing monthly payments, budgets, credit cards, loans, making a long-term savings plan, choosing where to live and purchasing home, getting married and raising a family or starting a business and preparing for retirement. According to the study of Program for International Student

Assessment (PISA) (2017) financial literacy is the knowledge and understanding of financial concepts and risk, as well as the skills, motivation and trust to apply such knowledge and understanding in order to make effective decisions across a range of financial contexts to improve individual and societal financial well-being and to encourage participation in economic life.

Financial Literacy vs. Sustainability

Financial literacy is a difficult term to grasp. In broad sense, it refers to the population's capacity to rationally handle household finances, keep track of income and expenditures, competently execute short and long term financial planning, be informed of current regulations and market conditions and comprehend the characteristic of different financial products and services (Ivanova et al., 2017). New research published by Vovchenko, Galazova, Danchenko, Ivanova and Kastoglodova (2018) concluded that the development and implementation of a series of financial, organizational, informational and other initiatives aimed at raising the population's level of financial literacy. It is also ensuring that citizens have access to open, objective and qualitative information in the field of financial literacy and the protection of consumers rights when using financial services, depending on their stage, conditions and needs.

Many young people aspire to work in fields where they can receive large salaries or at the very least enough money to live comfortably and securely. However, making money is just one part of the equation, basic financial literacy skills are also needed to effectively handle the money. From budgeting to simple cash management, financial literacy encompasses all money-related. Furthermore, financial literacy is essential for establishing personal wealth and family security a lack of money management skills may result in financial difficulties. People who lack basic financial literacy can find it difficult to save. They could get into a lot of credit debt or lose a lot

of money due to gambling or poor investment. By strengthening core financial skills, financial losses can be avoided (Rider University, 2021).

A study by Dayamati, Muryanti, Pradana (2018) to prevent financial issues every individual needs to be financially literate. In the event of poor management, financial difficulties can arise. The most important aspect of living a prosperous life is to be financially literate. Proper financial management supported by good financial literacy the standard of living of the people is projected to rise. No matter how high a person's income without proper financial management financial security would be difficult to achieve. Moreover, the importance of financial literacy in all areas of personal finance is not due to the challenge of using the money they have, rather people are supposed to be able to enjoy their lives by properly managing their financial resources.

Individual financial planning obligations should be completed as soon as possible, otherwise financial management can be costly and difficult to correct in the future. It suggests a lack of financial literacy that causes households to be unable to handle their finances effectively, causing them to spend money on items that are not necessary. Include a high level of financial literacy knowledge that has a positive effect on daily decisions and promotes higher levels of investment which improves long-term quality of life (Navickas, M., Gudaitis, T., & Krajnakova, E. 2014). Priority target respondents are highlighted in almost all countries' national strategies. According to an examination of international experience, the choice is primarily given to certain target groups as students in schools and higher education institutions, the leader and the employee, and residents of pre-retirement and mandatory retirement. The establishment of the foundations for the structure of financially literate behavior throughout the community presupposes a need to enhance state financial and budgetary strategy, the primary task of which is to guarantee the accountability of budgets throughout all levels and the budget process. The task is being solved in

the path of inclusiveness of budgetary variables as well as the capacity of residents to directly participate in budget formation (Vovchenko and Panasenkova, 2013; Albekov et al., 2017).

Indicators of Financial Literacy

Budgeting is the process of planning our expenditures. This spending plan called a budget. Planning for these expenses can help us decide in advance whether it will have the money that is needed. Budgeting allows individuals to plan or spending, ensuring that always have enough money for what the things needed and the things that are significant. Following a budget or spending plan can also keep us out of debt or help us get out of debt if currently in debt (Money Coach, 2021). A budget is an estimate of income and expenses over a specific period of time and is typically compiled and periodically reassessed. Budgets can be made for a person, a group of people, company, government or anything that makes and spends a money. A budget is a microeconomic concept that shows the business carried out when one good is exchanged for another. The bottom line of this transaction, the extra budget means that profits are expected, the balanced budget means that the income expects equal costs and the deficit budget means that the expenses exceed the income (Ganti, 2020).

Budgeting is viewed as positive growth, especially for growing businesses that require constant cash flow control. But, like everything a business does, the budget comes with a lot of built-in issues. These include making sure the information is accurate, using the data correctly and finding the right tools and resources to create a good budget (Faris, 2019). A budget sets profit goals and objectives. Budgeting can be done from below, where each department sets its own goals and objectives according to the general guidelines of the owner or management. The department then develops an action plan and determines the costs required to achieve the goals. The second alternative is Top down, where the budget for each department is managed by the management

and finance staff and assigned to each department. Both budget approaches have both positive and negative effects on employees (Jensen, 2021).

Focusing on employees budgets is great for encouraging the bottom line, but it can sometimes cause employees to forget other aspects of their jobs. One aspect of task level budgeting is that employees can focus too much on sticking to the budget and at the expense of customer service or even ethical behavior. This is of particular concern if the employee is bound to receive a compensation bonus or more. Managers need to make sure they are rewarding employees for behavior that is good for business, not just one aspect (Freedman, 2021). The overall performance of Small and Medium Enterprises of India is in addition suffering from the traits of the budget goals. The consequences upload to the truth that better overall performance may be carried out via greater clear goals. Astonishingly price range desires which might be hard however possible encourage personnel to obtain price range desires. However, possible desires additionally growth employee's motivation in success of price range targets and it advanced the overall performance of Small and Medium Enterprises of India. Another vital end result is that formal and tight manage mechanism of manage for budgetary technique additionally has a tendency to growth company overall performance with inside the SME region of India. It changed into very exciting to discover that budgetary technique have extra effect at the overall performance of the company in SME region in comparison to the budgetary manage technique. Furthermore budgeting making plans influences the income increase of corporations in Small and Medium Enterprises greater than the budgetary manage phenomena. But the effect of budgetary making plans on income turns into very vulnerable and in flip budgetary manage strongly influences the earnings in small and medium enterprises (Foster, 2017).

Personal financial management entails using financial knowledge and skills to make economic and financial choices such as financial savings, credit, insurance, and investments, among others. A growing body of research on personal finance emphasizes the importance of improving citizens' personal financial literacy, owing to the fact that perhaps the difficulty of the financial system, increased access to credit, and rising costs of living all necessitate individuals employing personal financial performance. Regardless of the fact that complicated financial understanding is not necessary of everyone, basic financial understanding related to income planning, purchases, and the availability and use of financial products is essential for leading a healthy financial living. However, surveys in the majority of countries, including several developing nations, revealed a low degree of personal financial education (Xu and Zia, 2012).

A study by Towanda and Mitchell defines financial management as "handling our financial situation responsibly in order to achieve financial independence" (UMBC Money Matters Seminar, n.d). It is concerned with the management of money in all aspects of life. Personal financial management and organizational management are both aspects of financial management. Personal financial management assists us in managing the finances of our homes, including budgeting, saving, investing, financial planning, and other factors of personal funds through which an individual is able to achieve individual goals (Bimal Bhatt, 2011). Personal financial management, in other words, is the practice of monitoring revenue and organizing expenses through with a comprehensive financial plan. Personal financial management is an important part of making our money work for all of us. This necessitates preparation. Planning is a process of building a comprehensive process for doing things and following it in order to attain the intended objectives or targets (ArticlesBase.com, 3 2012). Personal finance is an evolving strategy that alters as it

progress through our career paths and life stages; this is a strategy that must be evaluated as society changes, such as getting married, purchasing a home, and starting a family.

As claimed by Bimal and Bhatt (2011) personal financial management is important because it allows you to improve your standard of living, which results in better wellness and less financial stress. Furthermore, it allows individuals to make good investment decisions, that also impacts society, loans, and rises savings and investments

Theoretical Framework

The study anchored on the theory of Goal Setting Theory of Motivation; Context of Motivation on Financial Literacy, according to Michel (1997) this theory explains that the motivation is a mechanism that describes an individual's strength, direction and determination in achieving a goal. Motivation is the element that determines whether or not anyone can do something, including understanding the different aspects to products and services of financial industry. Individual financial planning is described as a method for managing an individual's finances in order to achieve personal economic satisfaction. Individuals may use this planning method to gain leverage of financial condition (Muizzuddin et.al,2017). This theory is applicable in this study since it discusses the financial goals of SME employees to plan and manage their money effectively as well as making their financial decisions.

This theory is also used in the study of Hogarth and Angelov (2003) that discovered a connection between poor families and a lack of savings as a result of a lack of motivation or willpower to do something. Moreover, a study of Mandell and Klien (2007) found that motivational factors dramatically enhance financial literacy skills. It is explained that motivations

are able to affect individuals actions in handling their finances and as a result it improve financial literacy.

Significance of the Study

This study is greatly beneficial to employees in small and medium enterprise's, this will provide as their basis on how to manage their money effectively by knowing the factors that affects financial literacy. Through this study, they will be able to know which part that needs to be improved and to become financially literate. This will guide them to become self-responsible in handling their money. The government can also be the beneficiary of this research through this they will be able to get ideas to create programs addressing to the community on how important to be financial literate and it gives them an avenue to address their problems on inadequacy of financial sustenance to their basic needs. Lastly, to the future researchers, this study can provide the future researchers to create and provide new ideas as well as additional information regarding this topic. This will be a guide for them to improve this topic for further investigation.

Scope and Delimitation

This study focuses on the factors that affects financial literacy of the employees who work in the small and medium size enterprises specifically the gender, family background status, income, education and experiences. Also, the level of financial literacy of employees in SME limited only to the following indicators: budgeting, personal financial management and investing. The researcher collects the data by the used of other researches and published articles that have a timestamp of 5 years.

Definition of terms

The following terms are described based on how they were used in the research:

Employees- refers to the full time employee who works in small and medium size enterprises.

Financial Literacy- refers to an employee's understanding of saving techniques, their ability to create a budget, investments and their understanding on how necessary it is to save or prepare for their retirement.

Budgeting – refers to an employee's estimation of revenue and expenses for a future period of time that is usually compiled and re-evaluated on their regular basis.

Personal Financial Management- refers to the process of planning and managing one's personal financial activities.

Investing- refers to how they use their resources effectively and ways to invest to meet their financial goals.

Gender- refers both male and female employees were more concerned with money management.

Family Background Status- refers to examine the family background status can shape on employees level of financial literacy.

Income- refers to the wages and how much they earned money are equipped with higher financial literacy.

Education- refers to the knowledge that has in every employee to make financial decisions.

Experience- refers to the employees experiences in dealing with money related matters.

Chapter 2

METHODOLOGY

In this chapter, the research methods will be discussed. This chapter contains with a brief description of the various components of research design, ethical consideration, data analysis, sampling frame, unit of analysis, and coding and procedure scheme.

Research Design

This research design will utilize the quantitative content analysis to assess and interpret data obtained. Quantitative content analysis is a process focused on the systematic coding and quantification of content, whether written, visual or oral content. It quantifies the meanings given in the method literature that indicates the scope of its use and discusses the processes that occur in the quantitative content analysis (Huxley, 2020). This research design is applicable in this 'study because this method would help the researchers consistently to evaluate the data obtained from the collection of text or other forms of written.

Ethical Consideration

In order to maintain the integrity, validity, and consistency, the ethical consideration of the study should be identified in this portion. There are four ethical considerations are included in this research: confidentiality, honesty, protection of integrity and plagiarism. The researcher will hide the researchers name and remain anonymous. They will not mention the authors or the researcher's names and they will assign codes in each research or in the published articles.

Confidentiality. It refers to the researcher's agreement to manage, store or disclose research data in a manner that protects the knowledge collected from and about the research participants.

Individuals will only be able to share information for research purposes if they know it will be kept private and not shared outside of the research environment or with unauthorized persons (University of Nevada, 2019). The researchers will be mindful and carefully hide the privacy in collecting their data from other researches and it will remain confidential.

Honesty. Being honest, to be reliable, means being equal and accurate. Often, dishonesty may reflect itself in plagiarism, data manipulation or forgery, or in obtaining credit for work of somebody else (Kaiser, 2019). The researchers must never be exempted from sound ethical judgment, they must be methodologically trained to perform legitimate and quality analysis, and they must be methodologically trained to perform accurate and quality analysis, and must to ensure that empirical considerations.

Protection of Integrity. It is the ethical principle of research, even in special needs education studies, is the preservation of the dignity of the research participants and informants. It aims to protect against the various types of risk involved in research to protect the identity of the participants.

Plagiarism. It refers in showing someone else work or ideas in your own with or without the permission or accrediting the authors and researchers. Also not inserting it to the work without giving them full credit (University of Oxford, 2021). The researchers will ensure that the information and the data they collect from other authors and researchers were properly give full acknowledgement.

Data Analysis

The researcher used the tool of content analysis is a research method used to identify trends in structured communication. To perform content analysis, systematically collect data from a

collection of text, which can be written, oral or visual (Lou, 2021). According to Huxley (2020) he stated that this methods include creating a highly important research hypothesis, defining and sampling content; checking for interrater reliability; and conducting analysis.

This table of interpretation represents the level of financial literacy of SME employees in terms Budgeting, Personal financial management and Investing.

Range of Mean	Description	Interpretation
4.20-5.00	Very High	SME Employees level Financial Literacy is very high.
3.40-4.19	High	SME Employees level Financial Literacy is high.
2.60-3.39	Moderate	SME Employees level Financial Literacy is moderate.
1.80-2.59	Low	SME Employees level Financial Literacy is low.
1.00-1.79	Very Low	SME Employees level of financial literacy is very low.

a. Sampling Frame

The researchers will get their data from the published articles and journals. They will collect ten sources of data from the articles or journals gathered. Moreover, the sources that will be the main concern in data collection is the level of financial literacy of SME employees it includes: budgeting, personal financial management and investing. Also in the factors affecting financial literacy of SME employees in their gender, family background status, income, education and experiences. The researchers will get the samples in collecting their data with a time frame of 2015- 2021.

b. Unit of Analysis

The unit of analysis is the main entity that analyze in the research (Trochim, 2020). The unit analysis of this research are the employees who work in the SME's businesses. Unit of analysis used in this study specifically in the abstract, introduction, findings/ conclusions and recommendation part. The researcher will collect ten studies that they will analyze in their data.

c. Coding and Procedure Scheme (Data gathering procedure)

Coding refers to the process of translating information or observations gathered into a series of coherent, unified categories. According to Allen (2017), it refers to a wide variety of observational items such as journal, articles, TV programming, field notes, and etc. it is the summarizing the information to provide a comprehensive account of being observed.

In each item in the sample was coded for basic details, which included the nominal variables mentioned: (1) level of financial literacy of SME's employees in terms of budgeting, personal financial management and investing. (2) factor's affecting financial literacy in terms of their gender, family status, income, education and experience.

Chapter 3

RESULTS AND DISCUSSION

In this chapter, the researchers presented, analyzed and interpreted the data that they collected during the conduct of the study.

Research Question #1: What is the level of financial literacy of the employees in small and medium enterprises in terms of:?

Table 1. Level of financial literacy of the employees in small and medium enterprises in terms of?

Indicator	Research 1	Research 2	Research 3	Research 4	Research 5	Mean
Budgeting	3	1	0	0	4	2.67
Personal Financial Management	0	0	1	1	2	1.33
Investing	3	0	2	0	1	2

Table 2 shows the level of financial literacy of the employees in small and medium enterprise which was analyzed based on its level namely budgeting, personal financial management and investing. Based on the results given, budgeting has a very high level of financial literacy with an average of mean of 2.67. Likewise, investing was the second which has a high level of financial literacy with an average mean of 2. Lastly, personal financial management which

has a low level of financial literacy with an average mean of 1.33. This result is also the same to the study of Ooko (2017) from his study about the financial literacy among employees is that the individual appreciate the importance of budgeting which leads to more efficient resource allocation for their needs and increased savings.

Research Question #2. What are the factors affecting the financial literacy of SME employees?

Table 2. Factors affecting of financial literacy of SME employees?

Factors	Research 1	Research 2	Research 3	Research 4	Research 5	Mean
Gender	6	1	1	0	1	2.25
Age	6	1	3	0	1	2.75
Family Background Status	0	0	0	0	0	0
Income	3	1	1	2	3	2
Education	7	0	0	2	2	3.67

Table 2 shows the factors affecting financial literacy of SME employees which was analyzed based on the factors namely gender, age, family background status, income and education. Based in the results given, it shows that most of factors given the education has a highest impact to the financial literacy of SME employees with an average mean of 3.67. Likewise, the

second factor that has also an impact to the financial literacy of employees is the age with an average mean of 2.75. Followed by the gender with an average mean of 2.25 and the next factor income with an average mean of 2. Lastly, based on the results the family background status shows that there is no impact to the financial literacy of the SME employees.

Chapter 4

CONCLUSION AND IMPLICATIONS/RECOMMENDATIONS

This chapter consist the summary of the study, it discussed the findings and the researchers' general recommendations about the study that they conducted.

Conclusion

Based on the results of the study, the researcher concluded that budgeting has the highest level of financial literacy of the SME employees and the investing has a high level of financial literacy while the personal financial management has a low level of financial literacy to the SME employees. On the other hand, the factors that has a great impact to the financial literacy of SME employees is the education with an average mean of 3.67 while the factors that has a least impact of the financial literacy of the SME employees are the gender, age and income. Lastly, the factors that shows no impact to the financial literacy of the employees is the family background status. Therefore, the researchers notice that education affects the financial literacy towards the SME employees.

Implications/Recommendations

Based on the findings and results to the study the researcher gives their recommendations and suggestions about the study conducted. It shows that the SME's has a high level of financial literacy in budgeting thus employees should better understand financial concepts, which allows them to manage their finances effectively. In table 1 personal financial management has the lowest outcome, implying that employees must develop more about to manage their money. On the other hand in table 2 the SME employees has a great impact education in financial literacy. As a result, employees should educate themselves more on how to be financial literate they should attend seminars to expand their knowledge about financial literacy.

To the future researches, the researchers also recommend to seek other factors that has a great impact to the financial literacy.

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