

THE IMPACT OF FINANCIAL LITERACY AND FUTURE ORIENTATION ON INVESTMENT DECISION MAKING: EVIDENCE FROM THE WESTERN PROVINCE, SRI LANKA

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Abstract

Selecting the right investment option involves making informed decisions about where to allocate funds. This is crucial for both individual financial success and for the broader economic well-being. This study examines the impact of Financial Literacy and Future Orientation on Investment Decision-Making among investors in the Western Province of Sri Lanka. Financial Literacy is tested through financial knowledge, skills, and attitudes, while Future Orientation is examined in terms of long-term and short-term orientations. The main objective of this study is to find the relationship and influence of Financial Literacy and Future Orientation on Investment Decision Making. A total of 393 responses were collected through a structured questionnaire distributed among investors in the Western Province, Sri Lanka. The analysis covers hypothesis testing, correlation testing, contingency tables, including plots and statistical summaries generated from SPSS software. The response variable, Investment Decision making, is examined through a Multiple Linear Regression model. According to the results, Financial Literacy and Future Orientation exhibit a significant positive impact on choosing investment options. Financial Attitude is identified as the top contributor of Financial Literacy for Investment Decision Making, whereas the Long-Term Orientation is discovered as a key element of Future Orientation for making investment decisions. Moreover, a positive impact is indicated by all the predictors in the regression model. The findings of the study highlight the need for policymakers, educators and financial institutions to design targeted financial literacy programs that go beyond the technical skills to emphasise understanding. Hence, having more financial understanding and competencies, along with a positive financial mindset, is better for investors to invest in the best investment opportunities.

Keywords: Financial Literacy, future orientation, investment decision making, investors

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Introduction

Background of study

Investment decision-making is a critical process, and the methodology varies among individuals. According to Williams (2007), financial literacy is a globally important sector for everyone involved in business, including board members, shareholders, employees and the general community. Inadequate financial literacy results in costly borrowing, excessive debt, restricted involvement in the financial sector, and insufficient retirement planning (Rasoaisi & Kalebe, 2015). Effective financial resource management is, therefore, an essential component of achieving life satisfaction.

Individuals' financial planning processes are greatly influenced by the conflict between short- and long-term results, which defines their level of future orientation (Howlett et al., 2008). Future orientation represents the extent to which an individual engages in future-focused behaviours such as saving, planning, and postponing gratification (Ansar et al., 2019), according to I. Khan et al. (2021), societies promote frugality, savings, and long-term investments as means of securing and enhancing future lifestyles. Consequently, investors in cultures that are long-term oriented typically commit more time and resources to choosing the best investments for the sake of achieving long-term goals.

A lack of financial literacy may obstruct the development of a country or a nation in several ways. It may lead to high levels of debt, restricted access to financial services, low savings and investment rates, limited entrepreneurship and innovation, and elevated inequality. In recent research in Sri Lanka, Madhushani and Rajapakse (2023) revealed that the level of financial literacy among professionals is often moderate. Individuals with low financial literacy tend to make uninformed financial decisions that reduce their overall well-being (Albeerdy & Gharleghi, 2015; Mohammed Esmail Alekam et al., 2018). Since there has been limited focus on analysing financial literacy and future orientation in investment decision-making among investors in the Western Province of Sri Lanka, it is worthwhile to research the impact of financial literacy and future orientation on investors in Sri Lanka.

Research objectives

This study examines the impact of Financial Literacy and Future Orientation on Investment Decision-Making among investors in the Western Province of Sri Lanka. Accordingly, the objectives of this study are as follows:

RO1: To identify the relationship between financial literacy, future orientation and investment decision making among investors in Western Province.

RO2: To examine the impact of financial literacy and future orientation on investment decision-making among investors in Western Province.

RO3: To find the most influential aspect of financial literacy and future orientation for investment decision-making among investors in Western Province.

The study will assist in identifying the influence of financial literacy and future orientation on making better-informed investment decisions. The findings will assist educators and policymakers in designing programs and policies to initiate financial well-being, reduce financial stress, and enhance economic growth. This information may be used to develop innovative policies and initiatives that support stability and economic expansion, ultimately increasing the country's GDP.

Literature Review

Theoretical background

A comprehensive strategy developed to improve financial literacy and enhance the well-being of finance is the OECD/INFE framework for financial literacy. Those who make decisions, governments, policymakers, and other parties who are interested can use the framework as a guide to create, carry out, and assess financial literacy initiatives (Howlett et al., 2008). According to the "prospect theory", it shows people are risk-averse on losses and risk-seeking in profits. Behavioural Finance provides examples of how various investors perceive and respond to information in the market. Ricciardi & Simon (2000) stated that behavioural finance characterises and advances our understanding of the emotional components of investor reasoning and how these factors impact the process of decision making. Goal-setting theory is a theory of encouragement that highlights the connection between

setting goals and the execution of results, which is very crucial in finance. These theories are incorporated in the current study to fulfil the objectives mentioned.

Investment decisions, financial literacy and future orientation

Making decisions about investments entails deciding where, how, and how much to put into different financial instruments to increase their value or generate revenue. According to the OECD/INFE Framework, financial knowledge, financial skills, and financial attitudes are the vital components of financial literacy. Hajam (2020) has defined Future orientation as “a person’s beliefs and assessment of how they will interact with their environment in the future”, describing it as a complex motivational cognitive process. According to Khalidah (2022), both future orientation and financial literacy are critical components that enhance pension fund planning, which is an important aspect of investment decision-making.

Empirical evidence from global context

Khan (2020) investigates the moderating influence of financial literacy at the Islamabad Stock Exchange and the impact of herding bias, disposition effect, and psychological accounting bias on investment decisions. A study conducted in Pakistan by Chaudary, Zafar and Tang (2024) revealed that, while not applicable to retail investors, the perspectives of professional money managers significantly influenced both long-term and short-term investment decisions. Kanagasabai and Aggarwal (2020) investigated the effects of risk resilience as a mediating variable between investment success and financial literacy, utilising a well-designed questionnaire to collect data from 203 investors in Chennai, India. In Malaysia, Albeerdly & Gharleghi (2015) have done research on the factors affecting the financial literacy of the students. In the mentioned study, they have concluded that financial literacy rates of Malaysian students are directly impacted by financial socialisation agents, education and money views.

Empirical evidence from local context

Balagobei and Prashanthan (2021) examined how individuals’ investing decisions are influenced by their level of financial literacy in the Jaffna area. The findings revealed that financial literacy, including its components of financial conduct, financial attitude, and financial knowledge, is positively related to investment decision-making. Similarly, Priyadarshani and Kumari (2021) conducted a study aimed at identifying the factors that impact personal financial literacy among university students in Sri Lanka. The research on undergraduates’ financial literacy and investment decisions conducted by D.A.T. (2020) involved 200 students from the four main government universities in the Western Province of Sri Lanka. Moreover, the study by Madhushani and Rajapakse (2023), found that professionals have a moderate level of awareness and understanding in both basic and advanced financial literacy. However, the financial literacy of professionals in non-management schemes, such as doctors and attorneys, was relatively low. Despite these contributions, a gap remains in the local literature, as few studies have examined investment decision-making by jointly considering the effects of both financial literacy and future orientation. The present study, therefore, focuses on this gap, with special attention given to investors in the Western Province.

Methodology

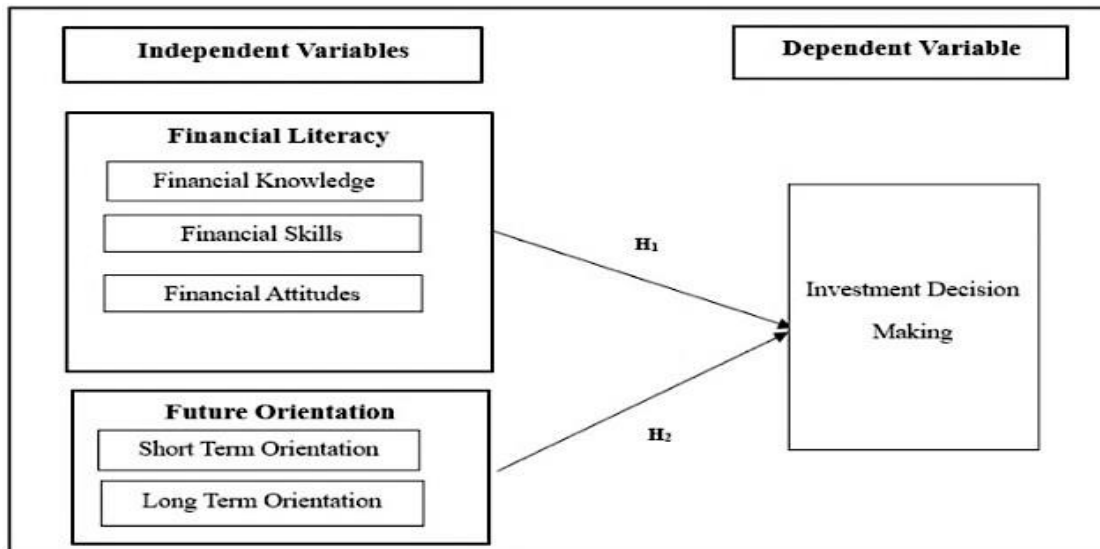
This study employs a deductive and quantitative methodology that utilises established findings and hypotheses. The research is a cross-sectional study, meaning data is collected from individuals at a singular moment in time. The investors in Western Province were designated as the research population. Individuals above 20 who have invested in at least one platform and live in the Western province are considered investors for the study. Due to the unknown population size, the Morgan table is utilised to determine the sample size. The calculation indicates that a minimum of 385 replies is required when the population size is unknown, with a margin of error set at 5%. Convenience sampling is employed as the sample technique. A self-administered questionnaire is shared with the convenience investors via online. The response rate is reported as 96.25%. The questionnaire consists of seven sections, such as Demographic Information, Financial Knowledge, Financial Skills, Financial Attitudes, Short-Term Orientation, Long-Term Orientation and Investment Decision Making. A total of 393 responses were collected through the distributed questionnaire, and the data collected were analysed using SPSS version 22. The reliability of the questionnaire is tested via statistical tests.

Based on the studies discussed in the literature review, Figure 1 shows the conceptual framework and hypothesis developed to examine the impact of Financial Literacy and Future Orientation on Investment Decision-Making among investors in the Western Province of Sri Lanka.

H1: *There is a significant relationship between Financial Literacy and Investment Decision Making.*

H2: *There is a significant relationship between Future Orientation and Investment Decisions.*

Figure 1
Conceptual Framework



(Source: Developed by authors based on literature (2025))

The study's variables are primarily derived from the literature. The dependent variable is investment decision-making, while the independent variables include the components of financial literacy (knowledge, skills and attitudes) and future orientation (short-term and long-term perspectives). All the variables gather data via a Likert scale, having a range from 1 to 5 (Antonides et al., 2011).

Results and Analysis

Cronbach alpha test for reliability and Kaiser–Meyer–Olkin (KMO) test

For the 36-item scale, Cronbach's Alpha value was 0.934, which is more than 0.7, indicating a high level of internal consistency. Additionally, Cronbach's Alpha values for each section of the questionnaire also exceeded 0.7, confirming the reliability of all variables across the different sections. According to the KMO test, the sampling adequacy value is 0.930, and it is significant at 5% significance level. This indicates that the original data is well-suited for conducting factor analysis as well.

Descriptive statistics analysis

Data received from respondents indicates that 49.62% are female and 50.38% are male. The highest percentage of responses, 90.84%, is derived from the 20–30 age group. A notable proportion, 47.8% (188 respondents), earn in excess of Rs. 100,000 monthly, likely reflecting elevated levels of education, including postgraduate and graduate qualifications in high-paying roles. On the other hand, 50 respondents, constituting 12.7%, earn below Rs 20,000. The majority of respondents are investing in Fixed Deposits.

Descriptive statistics for the independent variables and dependent variable

Within the Financial Literacy factors, Financial Attitudes exhibits the greatest mean (4.0030), whereas Short-Term Orientation displays the lowest mean (3.1841) among Future Orientation variables. Short-Term Orientation displays a slight positive skewness, but most variables exhibit negative skewness, signifying a concentration of responses at elevated values. Kurtosis values show various data distributions, ranging from platykurtic (e.g., Short-Term Orientation) to leptokurtic (e.g., Financial Attitudes and Financial Literacy). The data is suitable for further investigation as it typically demonstrates positive trends, moderate variability, and satisfactory levels of normalcy.

The dependent variable exhibits the subsequent summary of descriptive statistics. The sample size (N) consists of 393 responses, indicating that the responses encompass the entire scale, with a range of 4, a maximum value of 5, and a minimum value of 1. The standard error is 0.03238, and the mean value is 3.7031, suggesting predominantly affirmative responses. The data exhibits moderate variability, indicated by a variance of 0.412 and a standard deviation of 0.64182.

Inferential statistics

Correlation analysis is a statistical technique used to measure the strength and direction of the relationship between two continuous variables. In this study, Karl Pearson’s correlation coefficient is used, which ranges from -1 to +1. A value close to (+1) indicates a strong positive relationship, a value close to (-1) indicates a strong negative relationship, and a value near 0 indicates no relationship. Based on this approach, the following hypotheses are tested in the study.

H1: *There is a relationship between Financial Literacy and Investment Decision Making.*

H2: *There is a relationship between Financial Knowledge and Investment Decision Making.*

H3: *There is a relationship between Financial Skills and Investment Decision Making.*

H4: *There is a relationship between Financial Attitudes and Investment Decision Making.*

H5: *There is a relationship between Future Orientation and Investment Decision Making.*

H6: *There is a relationship between the Long-Term Orientation and the Investment Decision Making.*

H7: *There is a relationship between the Short-Term Orientation and the Investment Decision Making.*

Table 1
Results of hypothesis testing

Hypothesis	Pearson Correlation Value
H1	0.657
H2	0.535
H3	0.547
H4	0.589
H5	0.607
H6	0.590
H7	0.378

(Source: Authors’ Compilation)

Table 2
Model summary

R	R Square	Adjusted R Square	Durbin Watson
.706	.498	.491	2.168

(Source: Authors’ Compilation)

Table 3
ANOVA results for the regression model

Model	Sum of Squares	Degrees of Freedom	Mean Square	F-value	Significance
Regression	80.408	5	16.082	76.769	.000
Residual	81.069	387	.209		
Total	161.477	392			

(Source: Authors’ Compilation)

According to Table 1, all independent variables suggest a significant positive relationship with the dependent variable. Therefore, for further analysis, the MLR model is applied.

Multiple linear regression model

According to Table 2, the R² for the fitted MLR model is 0.498. Therefore, 49.8% of the variability in the Investment Decision Making variable is explained by the independent variables. Also, in accordance with the results, much variation cannot be seen between the R² values and the Adjusted R² value for the fitted model. This indicates a better fit on the fitted model. The Durbin-Watson for the fitted MLR model is 2.168, which is closer to 2 and within the range 1.5 and 2.5. It can be concluded that there is no autocorrelation in the fitted model. This is the hypothesis for the ANOVA test of the regression model. H_A: Model is valid

In accordance with Table 3, the p-value obtained from the ANOVA test is 0, which is below the threshold. Hence, the alternative hypothesis can be accepted at the 5% level of significance, which can be summarised as the fitted MLR model is significant and valid. Since the fitted model is significant, the interpretations of the coefficients can be made. The VIF values under 5 are acceptable and reveal no multicollinearity. The tolerance values are also not less than 0.1, indicating the same conclusion.

According to Table 4, all the coefficients except the coefficient for Financial Skills are significant at 5% significance level. The model can be written as follows.

$$y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 \dots\dots\dots (1)$$

$$\text{Investment Decision Making} = 0.325 + 0.171 (\text{Financial Knowledge}) + 0.086 (\text{Financial Skills}) + 0.225 (\text{Financial Attitudes}) + 0.156 (\text{Short Term Orientation}) + 0.271 (\text{Long Term Orientation})$$

All the coefficients are positive, indicating a positive impact on the dependent variable.

Table 4
Coefficients of the regression model

Model	Unstandardized Coefficients		Standardized Coefficients	t-value	Significance	Collinearity Statistics	
	Beta	Standard Error	Beta			Tolerance	VIF
Constant	.325	.175		1.85	.049		
Financial Knowledge	.171	.05	.165	3.42	.001	.557	1.79
Financial Skills	.086	.053	.088	1.61	.107	.44	2.27
Financial Attitudes	.225	.049	.24	4.56	.0	.467	2.14
Short-Term Orientation	.156	.035	.177	4.47	.0	.831	1.2
Long-Term Orientation	.271	.053	.259	5.088	.0	.499	2.0

(Source: Authors' Compilation)

Model diagnostic tests

The VIF values of all the input variables are within the acceptable range (1-5), and no correlation exists between the independent variables in the fitted model. The tolerance values are also not less than 0.1, indicating the same conclusion that no serious correlation exists between the independent variables. The residuals are randomly distributed. Hence, this MLR model has no issues with heteroscedasticity. The PP-Plot obtained for the fitted model indicates that standardised residuals are distributed close to the regression line. That indicates the normality of residuals. Therefore, the assumption of normality is fulfilled for the fitted regression model.

Discussion

The results indicate that the proportions of males and females are approximately equal, nearing 50% each. The majority of responders are aged between 20 and 30 and are graduates. More than Rs 100,000 per month was earned by the largest percentage of respondents. The investment platform in which the greatest number of respondents have invested is Fixed Deposits, followed by Stock Markets. Investors possessing the greatest academic credentials appear to have adequate financial expertise. Investors with a monthly income ranging from Rs 20,000 to Rs 50,000 appear to be managing their budgets. Investors over the age of 50 appear to have effectively controlled both essential and non-essential expenditures. Furthermore, investors from all risk categories appear to be present in the current study.

A notable correlation exists between Financial Literacy and Investment Decision Making at a 5% significance threshold. A correlation coefficient of 0.657 indicates a favourable correlation. This suggests that elevated financial literacy correlates with a greater willingness and capacity to make educated investing decisions. The Financial Attitudes variable, possessing the highest correlation coefficient, can be identified as the most influential part of Financial Literacy. This suggests that investors' attitudes about finance significantly influence their investment decisions. A correlation coefficient of 0.607 signifies a favourable relationship; specifically, increased preparation and foresight enhance the willingness and capacity to make investment decisions. The primary factor of future orientation affecting investment decision-making is identified as long-term orientation, since it exhibits the strongest correlation coefficient.

All independent variables, except Financial Skills, are significant at the 5% significance level in the fitted model, indicating a substantial impact on investment decision-making. This suggests that having financial skills alone (like budgeting or record-keeping) may not directly influence the investment decisions unless combined with financial understanding or positive attitudes. However, as stated by D.A.T. et al. (2020), small firms' financial skills have a direct impact on their investment decisions. All coefficients in the model are positive, indicating that the influence of the independent variables on investment decision-making is favourable. The focus on long-term variables exerts the most significant positive influence on investment decision-making as it has the highest coefficient value. Within financial literacy, financial attitudes demonstrate the strongest positive effect according to the fitted model. The model is valid at a 5% significance level, and all assumptions have been validated to support its validity. In summary, the influence of Financial Knowledge, Financial Attitudes, Financial Skills, Short-Term Orientation, and Long-Term Orientation on Investment Decision Making is positive, with Long-Term Orientation and Financial Attitudes exerting the most significant positive impact. This indicates that individuals with a strong long-term orientation and favourable financial attitudes are more likely to make sound investment decisions. While financial knowledge and skills are important, attitudes toward finance and future-oriented thinking are equally crucial for informed and prudent investment decisions.

It is recommended to promote long-term financial planning and investment behaviour, and to conduct financial literacy training programs, ensuring that people apply their financial knowledge to make wise financial decisions. The findings of the study will contribute to reducing the financial stress of various stakeholders and enhance the economic growth of the country. However, the researcher focuses on regions, giving special attention to the Western Province. Still, this limitation makes it impossible to include all investors in the study's sample.

Conclusion

This study was conducted to examine the impact of financial literacy and future orientation on Investment decision-making among investors in Western Province. According to the results, both future Orientation and financial literacy have a significantly positive impact on Investment decision-making. Moreover, the most influential aspect of financial literacy for Investment Decision-Making is identified as the Financial Attitudes of investors, and the most influential aspect of Future orientation for investment decision-making is long-term orientation. Apart from that, risk-averse, risk-neutral and risk-seeking investors are identified in the sample collected. Hence, financial literacy and future orientation are crucial when making informed and best investment decisions. Moreover, apart from financial literacy and future orientation, other factors can be combined with the study, and therefore, the current study on Investment Decision Making can be extended to further factor analysis.

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