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# Effect of Financial Goals on the Investment Decisions among Teachers in the Secondary Education Sector in the Western Province of Sri Lanka

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## 1. Introduction

Financial goals, such as saving for retirement or purchasing a vehicle are crucial for individuals and depend on factors like income, dependents, and marital status. In Sri Lanka, financial stability and wealth maximization are the ultimate goals, achieved through investing. Investments play a significant role in the quality of life of teachers globally, and they must invest their money to achieve a higher return in the future. Teaching is a popular profession globally, with teachers playing a crucial role in education. However, due to their moderate income, teachers face financial challenges. Effective investment decisions are essential for their financial well-being. The lack of investment advice has led teachers to focus on basic options like bank savings and fixed deposits, neglecting wealth maximization opportunities.

Shrivastava (2023) highlights the importance of savings and investments in a country's economic development. In Sri Lanka, rising living costs have negatively impacted middle and low-income earners' investment patterns. Teachers are working to improve their standard of living and become financially stable.

Although research has been carried out in Sri Lanka investigating the demographic factors, culture and financial literacy on investment decisions of the teachers, no research is carried out to investigate the relationship between their financial goals and investment decisions. Therefore, the rationale of this study is to shed light on the diversified financial goals within this specific population which will enable investment advisors to provide effective investment advice that cater to their requirements and to achieve wealth maximization at a minimum opportunity cost.

Therefore, the aim of the research is to understand and identify if the investment decision making is driven by the financial goals of the teachers in the secondary education sector in the western province of Sri Lanka. Empowering teachers with financial knowledge can positively impact the country's economic growth, as they may pass on this information to their students which will lead them towards investments which will impact the economic growth of the country.

## 2. Literature Review

As identified by Feyen, Gispert, Kliatskova & Mare (2021) the financial sector in Sri Lanka provides a vast range of products and services such as capital formation, intermediation, risk management, monitory policy transmissions, as well as payment and settlement systems and a diversified range of investment and savings platforms to the individuals. Corporates Banks are the largest and most important component of the Sri Lankan financial system. Capital market is another major investment opportunity proving sector in a country. Components of the capital market include government securities, stocks, and corporate bonds. The primary dealership companies provide the opportunity to its investors to increase their wealth through investing in government bills and bonds. Which are considered risk-free investments & are not tax liable. Sachdeva & Lehal (2023) also refer to stock markets as an important unit in a county which contributes towards the development and growth of the economy.

The five independent variables identified in this study are time horizon, liquidity needs, tax implications, retirement plans and emergency funding, will be discussed further.

### *2.1 The influence of time horizon on investment decisions*

The time horizon refers to the investment time an investor plans to hold before selling or liquidating assets. Research shows that investors often rely on time horizons to make decisions, as they are concerned about the timing of returns. Factors such as age, wealth, productivity, and necessity affect the time taken for gaining a return, ultimately affecting investment decisions.

According to Levy (2022) long time horizons involve increased environmental uncertainty that inhibits precise expectations. It was suggested that investors should invest more in equity as the time horizon increases.

Short-term investments can have negative consequences due to economic, environmental, and social systems. Economic conditions, such as GDP, inflation, unemployment rate, and interest rates, affect investment decisions, making investors more cautious. Additionally, fees associated with investments, such as transaction fees and ongoing fees like account maintenance fees, can negatively impact investment efficiency.

### *2.2 The influence of liquidity needs on investment decisions*

Liquidity needs refer to the ability of individuals to have free cash, which can impact their investment decisions. Marketability refers to the speed at which a security can be converted into cash or near cash, while marketability allows investors to be more flexible. Financial constraints and free-cash-flow problems can also affect investment decisions, particularly for middle-economy individuals. Income stability, which ensures regular cash inflows, can also influence investment decisions.

Fireld and Mkrtchyn (2022) state that high liquid investments provide more opportunities due to low capital costs, while others prefer short-term investments for cost-effectiveness and high returns. Overall, liquidity needs, and income play a significant role in investment decisions.

### *2.3 The influence of tax implications on investment decisions*

Taxes are a significant source of income and economic influence. Investments are more sensitive to tax rates, with growth-inducing policies encouraging investments and reducing income tax rates. Taxes also influence spending patterns and private investment control. High tax rates can reduce after-tax investment returns, and investors often anticipate future tax rates. In Sri Lanka, different investment incomes are taxed, with capital gains at 10%, interest earned on Fixed Deposits at 5%, and dividend income at 15%. Lower capital gains tax rates can encourage capital investment. Tax credits are criticized for being costly and affecting savings and investment behavior in developing countries.

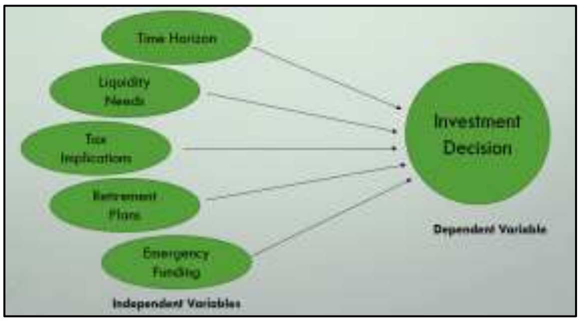
### *2.4 The influence of retirement plans on the investment decisions*

Private sector individuals often start investing at a younger age to prepare for their financial requirements after retirement. However, many individuals do not make active retirement savings decisions due to their risk aversion towards loss, resulting in wealth reduction rather than increase. Age plays a role in investment decisions, as older investors prefer to preserve capital and choose less risky options. Financial literacy plays a role in investment decisions, but retirement has an insignificant impact. Risk attitude is a psychological variable that affects an individual's investment decisions, and the level of risk acceptance and response varies from investor to investor. Income needs also influence investment decisions, with low-income earners being more affected than high-income earners. However, income needs do not necessarily influence investment decisions. Employer matching contributions significantly influence retirement savings and having an employer-funded retirement plan influences saving behavior and investment portfolio choices. Overall, age, risk tolerance level, income level, and financial goals of retirement planning influence investment decisions.

### *2.5 The influence of emergency funding on investment decisions.*

Emergency funding is a strategy where investors save for unexpected cash needs, often investing in risk-free assets. However, this can lead to unnecessary wealth reduction. Diversifying investments towards equity can help reduce funding inadequacy. Traditional strategies involve holding a large amount of cash in risk-free high liquid assets, but this can lead to opportunity costs. Accessibility to emergency funds is crucial for asset accumulation and purchasing securities. High-income individuals prioritize safety when trading on equity stocks, while low-income individuals may prioritize quick wealth accumulation. Diversification involves investing in various assets to reduce market fluctuations, but investors often lack diversity due to their perception of risk. The below diagram shows the relationship of the 5 factors time horizon, liquidity needs, tax implications, retirement plans and emergency funding have on investment decisions. This will be tested throughout the research.

**Figure 01** *Conceptual framework*




The hypothesis developed for the above is as follows.

H1: There is a relationship between investment time horizon and investment decisions among teachers in the secondary education sector in Sri Lanka.

H2: There is a significant relationship between liquidity needs and investment decisions among teachers in the secondary education sector in Sri Lanka.

H3: There is a significant relationship between tax implications and investment decisions among teachers in the secondary education sector in Sri Lanka.

H4: There is a significant relationship between retirement plans and investment decisions among teachers in the secondary education sector in Sri Lanka.

H5: There is a significant relationship between emergency funding and investment decisions among teachers in the secondary education sector in Sri Lanka.

## 3. Methodology

The research philosophy used is “positivism” as researchers have tried to find the relationship between financial goals and its effect on the financial decision of the teachers engaged in secondary education in the Western province of Sri Lanka. A deductive approach was used starting with a theory and deriving hypothesis from it and revising the theory. The research method is mono method quantitative. Data collection was done cross sectional. An online questioner was used as the data collection tool for this research. The population is 39,987 and a sample with the use of **random sampling technique**, consists of 381 with 325 from the government sector and 56 from the private sector.

A pilot study tested internal consistency by administering a questionnaire to a selected group, aiming for 80% consistency. External consistency was achieved by circulating the questionnaire online, ensuring neutrality and data collection happened in an unbiassed manner with the use of online questionnaire no personal information disclosed to the researcher.

The data analysis was carried out through the SPSS software. And the statistical analysis technique is hypothesis testing and descriptive statistics like mean, median and mode were discussed. The research's validity was ensured by creating a questionnaire covering all five hypotheses and referencing literature published after 2013. The results can be generalized to the whole of western province and Sri Lanka.

## 4. Results and Discussion

To measure the validity and reliability of the variables Cronbach's alpha was used and time horizon, liquidity requirements, tax implications, retirement plan and emergency fund was all found to be reliable.

To measure the influence of time horizon on investment decisions attributes like investment length, economic conditions, fees and charges relevant to investment and salary of the investor were analyzed.

**Table 01**

*Summary of key findings – Investment Time Horizon*

| | | | | | |
|---|---|---|---|---|---|
| **N** | **Valid** | 287 | | | |
| | **Missing** | 0 | | | |
| | | **Economic Condition** | **Fees and Charges** | **Investment Length** | **Salary** |
| **Mean** | | 1.71 | 2.16 | 1.80 | 1.57 |
| **Median** | | 2 | 2 | 2 | 2 |
| **Mode** | | 2 | 2 | 2 | 2 |
| **SD** | | 0.553 | 0.908 | 0.592 | 0.524 |
| **Pearson Correlation Value** | | 0.375 | | | |
| **Chi-Square Value** | | 0.000 | | | |

According to the above table the Pearson correlation coefficient value of .375 indicates a positive relationship between Investment time horizon and Investment decision. This further supports the literature as Alzoubi et al, (2021) clearly states that individuals make inconsistent investment decisions based on differing investment time horizons.

Another variable identified is the influence of tax implications on investment decisions. Overall, 78.4% agree to the factor that tax rate of the country influence the investment decisions. Further factors like influence of tax credits, tax efficiency, income tax influence too impact investment decisions.

**Table 02**

*Summary of key findings – Tax Implications*

| | | | | | |
|---|---|---|---|---|---|
| **N** | **Valid** | 287 | | | |
| | **Missing** | 0 | | | |
| | | **Tax Rate** | **Tax Credit** | **Tax Efficiency** | **Income Tax** |
| **Mean** | | 2.1 | 2.44 | 2.36 | 2.03 |
| **Median** | | 2 | 2 | 2 | 2 |
| **Mode** | | 2 | 2 | 2 | 2 |
| **SD** | | 0.813 | 1.019 | 0.837 | 0.823 |
| **Pearson Correlation Value** | | 0.006 | | | |
| **Chi-Square Valu** | | 0.003 | | | |

The Pearson correlation coefficient value of .0.006 which is very close to zero indicates that there is a very minimal/ no relationship between tax implications and investment decision of teachers. While the findings of the chi-square test of independence show a insignificant relationship between taxation and Investment decision, with a p-value of.003, rejecting the alternative hypothesis and accepting the null hypothesis.

Another variable that was tested is the relationship between emergency funding needs of teachers and its impact on the investment decisions.

**Table 03**

*Summary of key findings – Emergency Funding*

| | | | | | |
|---|---|---|---|---|---|
| **N** | **Valid** | 287 | | | |
| | **Missing** | 0 | | | |
| | | **Safety** | **Diversified Investments** | **Accessibility** | **Fund Size** |
| **Mean** | | 1.61 | 1.85 | 1.85 | 1.94 |
| **Median** | | 2 | 2 | 2 | 2 |
| **Mode** | | 2 | 2 | 2 | 2 |
| **SD** | | 0.542 | 0.528 | 0.497 | 0.509 |
| **Pearson Correlation Value** | | 0.323 | | | |
| **Chi-Square Valu** | | 0.000 | | | |

The Pearson correlation coefficient value of .323 indicates a positive relationship between emergency funding needs and investment decision. The research carried out by Despard et al. (2020) states that easy access to affordable savings enables asset accumulation among individuals. The same argument is done Nguyen (2023) by stating that accessibility in important for purchasing securities and financial products. He further states that by not having accessibility will prevent the low-income earning individuals from maintaining emergency funds. So, the results are in line with the literature.

In summary, the results of the hypothesis testing were that there is a relationship between investment time horizon and investment decisions. It was subsequently found that there is a relationship between liquidity requirement, retirement plan, emergency fund and investment decisions. However, it was identified there was no relationship between taxation and investment decisions.

## 5. Conclusions/Recommendations

Aim of the research is to understand and identify if the investment decision making is driven by the financial goals of the teachers in the secondary education sector in the western province of Sri Lanka. The literature review enables to identify five financial goals of the teachers, which were considered as independent variables, and four attributes were selected to identify the relationship between the financial goals and the investment decisions of the teachers.

Based on the analysis carried out it can be concluded that all five variables have an impact on the investment decisions. However, the impact of taxation on the investment decisions is minimal when compared to the other four variables.

The knowledge contribution of the study provides insights for investment opportunity providers and advisors, offering customized advice to help teachers achieve their financial goals. The researcher studied Western Province teachers in Sri Lanka, revealing how financial goals influence investment decisions.

This understanding will benefit investment opportunity providers and advisors, offering customized advice to help teachers achieve their financial goals. This bridged the gap between literature and real-world application.

The research faced several limitations, including significant data collection from government sector teachers due to time and access limitations, a monomethod quantitative approach that forgoes qualitative data, and sampling based on easy-access schools. The questionnaire was presented in English and Sinhala only, potentially limiting responses from Tamil teachers, potentially resulting in a less diverse population and not generalizable findings. Additionally, financial goals and investment decisions may change over time, and the study would have captured participants' current attitudes and behaviors.

The recommendations for the research are for teachers to be informed about economic conditions through financial literacy programs, transparent fees structures, and online calculators. Salary plays a significant role in investment time horizons. The ministry of education should conduct budgeting, financial planning, and salary progression awareness programs. Financial advisors can provide personalized investment advice, and employment stability is crucial for emergency funding investments. Staying informed about tax law changes, assessing income needs, and evaluating retirement expenses are essential. Having a diversified portfolio and consulting with investment advisors can help teachers achieve their retirement goals.

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