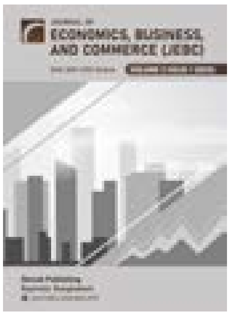

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Financial Education and its Impact on Decision Making in Business Management

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About Article

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ABSTRACT

This article discusses the influence of financial education on business decision-making. The lack of financial knowledge can lead to various difficulties, such as excessive debt, poor cost management, and liquidity problems, compromising the sustainability and growth of organizations. Methodologically, the study examined pertinent research on the subject using an exploratory and bibliographic method. According to the findings, people and organisations with higher financial literacy levels perform better, are more resilient to economic shocks, and are better equipped to deal with emergencies. It is concluded, therefore, that promoting financial education is essential for strengthening business sustainability and driving economic growth.

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1. INTRODUCTION

The decision-making process in management has always been a fundamental factor for the growth and success of an organization. One of the key pillars that significantly impacts the final decision is the availability of funds to enable the implementation of the decisions made. This phenomenon has led to a continuous search for financial knowledge (financial education) by entrepreneurs and managers, aiming to make assertive decisions in financial management and application, both in expenditures and investments.

In this setting, Financial Education (FE) became a crucial component of the financial decision-making process for managers and entrepreneurs, demonstrating the need to comprehend its effects. In a setting where financial decisions are becoming increasingly complex, having the necessary knowledge becomes essential to achieving financial success.

According to Dessen (2015), FE is the process by which people look for information and understanding about financial issues in order to enhance their interactions, conduct, and attitudes toward money. Research shows that FE has a direct influence on organizational decision-making in addition to improving comprehension of financial concepts.

According to Lusardi and Mitchell (2014) and Dessen (2015), individuals with greater financial knowledge tend to achieve better personal and professional financial results through investment habits, consumption planning, and a savings culture. Based on bibliographic and exploratory research, this study investigates financial education and its impact on entrepreneurs' and managers' decision-making, highlighting the need to promote financial literacy as a means to improve decisions and, consequently, financial health. The analysis not only addresses the impact of financial education but also its concepts, importance, barriers to implementation, and possible ways to overcome these challenges.

Thus, the study seeks to answer the following question: What is the impact of financial education on entrepreneurs' and managers' decision-making in business? This question aims to analyze the relationship between financial education levels and the effectiveness of financial decisions, providing a starting point for analyzing financial practices. This study is highly relevant in raising awareness among managers and entrepreneurs about the need for continuous learning to foster growth and develop the ability to make increasingly efficient and effective decisions.

2. LITERATURE REVIEW

2.1. Defining Financial Education and its Importance

2.1.1. Core Components of Financial Education

Financial literacy is a multifaceted concept that involves understanding the fundamental principles of budgeting, which includes tracking income and expenses to ensure financial stability (Dorea *et al.*, 2018). It also entails grasping the importance of saving, which provides a financial cushion for unexpected events and future goals. Investing is another crucial component, requiring knowledge of different investment vehicles and risk management strategies to grow wealth over time. Managing risks, such as understanding insurance and diversification, is essential to protect financial assets and avoid significant losses. A strong foundation in these areas enables individuals to make informed financial decisions and achieve long-term financial well-being.

Financial education equips individuals with the knowledge and skills necessary to manage credit responsibly, which is vital for maintaining a healthy financial profile (Lotter & Okoro, 2024). This includes understanding the terms and conditions of credit cards, loans, and other forms of credit, as well as the impact of interest rates and fees on overall debt. Developing responsible borrowing habits, such as making timely payments and avoiding excessive debt, is crucial for building a positive credit history and accessing favorable financial products in the future. Effective credit management also involves knowing how to resolve credit disputes and protect against identity theft and fraud.

2.1. 2. The Significance of Financial Literacy

Financial literacy enables individuals to make conscious financial decisions and secure a better quality of life, leading to improved financial well-being and reduced financial stress (Dorea *et al.*, 2018). It involves understanding not just the basics of budgeting and saving, but also the ability to critically assess financial products, services, and advice. Financially literate individuals are better equipped to make informed choices about managing their money, planning for retirement, and achieving their financial goals.

Low financial literacy can lead to poor spending decisions and difficulties in retirement planning, resulting in financial insecurity and hardship. Without a solid understanding of financial concepts, individuals may be more likely to overspend, accumulate debt, and fail to save adequately for retirement. This can lead to significant financial challenges later in life, including poverty, dependence on social welfare programs, and inability to afford basic necessities.

Financial literacy is closely connected with the sustainable growth of the economy, promoting responsible financial behavior and contributing to overall economic stability (Fuente-Mella *et al.*, 2021). When individuals are financially literate, they are less likely to engage in risky financial behavior, such as excessive borrowing or speculative investments. This reduces the risk of financial crises and contributes to a more stable and resilient economy.

It empowers people to capitalize on market opportunities and contribute to economic development, fostering a more stable and prosperous society (lotter & Okoro, 2024). When individuals are financially literate, they are more likely to invest in businesses, purchase homes, and start their own ventures, all of which contribute to economic growth and job creation. They are also better able to navigate economic downturns and adapt to changing financial conditions.

3. METHODOLOGY

According to Gerhardt and Silveira (2009), the methodology is a set of initial data and an operational system that must be organized properly according to predetermined objectives to draw conclusions. In this work, from a scientific point of view, bibliographic research was used, scientifically characterized as exploratory and qualitative. According to Marconi and Lakatos

(2016), bibliographic research involves literature that has already been published on the subject in question, including isolated works, newsletters, newspapers, magazines, books, as well as research papers and theses. Its purpose is to connect the researcher directly to everything that has been written, spoken, or filmed on a specific topic, including conferences and debates that were transcribed in different forms, both published and recorded.

The data in this study came from both primary and secondary sources. The primary sources consisted of recent scientific publications and reports. The secondary sources included literature reviews, academic articles, and materials compiled by other researchers. Their selection was based on criteria of relevance, timeliness, availability, and credibility, ensuring that only consistent and well-founded information was used for the analysis.

4. RESULTS AND DISCUSSION

4.1. The Value of Financial Education

Many people agree that financial education is crucial to making wise judgments and, as a result, improving one's financial success. Financial education is the process by which people improve their knowledge of financial products, their concepts, and risks so that, with clear information and appropriate recommendations, they can develop the skills and confidence necessary to make secure and well-founded decisions, thereby promoting financial well-being, according to the Organization for Economic Cooperation and Development (OECD, 2014).

Camargo (2007) views financial education as a reflection of money management. He argues that an individual with financial knowledge establishes and follows deliberate and targeted strategies for maintaining or accumulating assets and values that will make up their personal and family wealthIn support of this goal, Medeiros Abel *et al.* (2021) assert that financial education encompasses more than just economics; it involves financial cognizance and decision-making based on knowledge rather than assumptions. As a result, when dealing with financial concerns, individuals consciously consider risks and opportunities.

Rassier (2010) establishes a connection between personal finance and quality of life at work, arguing that financial planning is not limited to material success but also aims at personal and professional success. According to the author, financial planning is the process of managing resources with the goal of achieving personal satisfaction, financial independence, and the realization of dreams.

In the same line of thought, Dessen (2015) defines financial education as a process through which individuals seek knowledge and awareness of financial matters to improve their relationship, behavior, and attitudes toward money. In a complementary way, Punhagui *et al.* (2016) emphasize that financial education is fundamental for efficient money management, promoting informed financial decisions and the achievement of financial stability.

Authors such as Lusardi and Mitchell (2014) highlight that financial training is not limited to the theoretical field but represents a practical tool that promotes more efficient and sustainable management. Stronger financial performance and a higher quality of life are the outcomes of those who are better able to manage their money and steer clear of financial traps. Therefore, it strengthens financial education, economic and corporate sustainability, improving people's financial literacy and influencing organizational and personal decision-making processes.

The information and abilities that help people manage their money wisely are referred to as financial education. Strong financial backgrounds help people and organizations avoid financial pitfalls and maximize their resources by influencing their decision-making (Dessen, 2015).

For Lusardi and Mitchell (2014), education is associated with better outcomes, including financial results, debt reduction and wealth growth.

Caetano *et al.* (2021) demonstrate that the lack of financial education generates various economic and social concerns, including work demotivation, stress, reduced leisure quality, poor nutrition, and limited education for children, affecting individuals' levels of satisfaction and well-being and, consequently, lowering their quality of life.

The aforementioned authors argue that financial education is of extreme importance for various reasons, impacting individuals, communities, and economies alike. In this research, the importance of financial education is highlighted in the following aspects:

- *Economic Empowerment:* Lusardi and Mitchell (2014) emphasize the importance of financial education in economic empowerment, indicating that a higher level of financial literacy is linked to superior financial outcomes, enabling individuals to make more conscious choices regarding their finances.
- *Debt Prevention:* Financial education plays a crucial role in preventing excessive debt by helping individuals better understand the implications of their financial decisions, thus avoiding unnecessary liabilities (Fatoki & Odeyemi, 2010).
- *Business Sustainability:* Dias (2018) highlights that entrepreneurs with strong financial education are more likely to manage their businesses effectively and sustainably. In her work, she addresses how proper financial planning and cash flow control are essential for the financial health of companies.
- *Resilience in Times of Crisis:* Financial education is a critical factor for the economic resilience of individuals and communities, especially during financial crises. Financial literacy helps people prepare for uncertainties (Fernandes *et al.*, 2014).
- *Positive Financial Behavior:* Financial education is essential in shaping positive financial behaviors, influencing how individuals save, invest, and spend their money (Fatoki & Odeyemi, 2010).
- *Cost Management:* According to Atkinson and Messy (2012), financial education enables managers to develop effective budgets and identify and analyze fixed and variable costs. This results in control measures that increase profitability and reduce waste. Similarly, Miller *et al.* (2015) highlight that financial education allows individuals and managers to assess risks and returns, set clear financial goals, and diversify investments. These strategies are essential for developing balanced portfolios and reducing risks.

Financial education plays a crucial role in both personal and business cost management. In the personal context, it enables individuals to manage their finances efficiently, controlling expenses, creating budgets, saving, and investing for the future. This results in a higher quality of life and a lower risk of debt (Caetano *et al.*, 2021).

4.2. Connection Between Financial Education and the Effectiveness of Financial Choices

The relationship between financial education and financial performance has been widely studied, with various authors discussing how financial education impacts individuals' and organizations' ability to manage their finances.

- *Financial Education and Decision-Making:* Lusardi and Mitchell (2014) argue that financial knowledge is closely linked to the ability to make sound financial choices. They state that individuals with greater financial knowledge tend to have better financial results, such as lower debt and higher wealth accumulation.
- *Impact on Cost Management:* Atkinson and Messy (2012) discuss how financial education helps managers better understand their cost structures, leading to more effective decisions regarding cost reduction and resource optimization. They highlight that strong financial education can improve an organization's profitability.
- *Investment Decision-Making:* Miller *et al.* (2015) point out that financial education enables individuals to properly evaluate the risks and returns of different investment options. This results in a more effective allocation of resources and a more balanced portfolio.
- *Cash Flow and Financial Sustainability:* Marin and Palmeira (2012) emphasize that cash flow is an essential tool for planning and controlling financial resources, serving as a foundation for management decisions.
- *Relationship with Business Performance:* Fernandes *et al.* (2014) identify a positive correlation between financial education and companies' financial performance. They state that businesses with financially literate employees tend to have better economic performance.

These studies highlight that financial education is fundamental in improving financial performance, enabling individuals and organizations to make more informed and strategic decisions. The relationship between financial education levels and financial decision effectiveness is a widely explored topic in the literature, with several authors asserting that solid financial education can significantly influence how individuals and organizations manage their finances.

4.3. Impact of Financial Education on Decision-Making Related to Cost Management, Investments, and Cash Flow

A lack of financial knowledge can lead to poor choices in managing expenses, investments, and cash flow. Lusardi and Mitchell (2014) highlight that "low financial literacy is associated with poor financial management, resulting in miscalculated decisions that affect business viability". This manifests as difficulties in controlling operational costs, which can lead to insolvency.

- *Cost Management:* Entrepreneurs without financial knowledge often underestimate costs and fail to develop effective budgets. According to Fatoki and Odeyemi (2010), small business owners who lack financial education are more likely to face challenges in cost management, resulting in reduced profit margins. Poor planning can lead to unnecessary expenses and improper resource allocation.
- *Investment Decisions:* Financial knowledge is essential for analyzing and selecting the best investment opportunities. The lack of financial education limits entrepreneurs' ability to identify and evaluate profitable investments, leading to decisions that do not maximize growth potential (Dias, 2018).
- *Cash Flow Management:* Financial education plays a key role in ensuring efficient financial control. Pereira *et al.* (2019) emphasize that a lack of financial skills can result in failures in revenue and expense forecasting, leading to liquidity problems that threaten business continuity.

Promoting financial education should be a priority not only for individuals but also for communities and economies. Training programs addressing these financial aspects are essential to equipping entrepreneurs with the knowledge necessary to make informed decisions, ensuring the financial health and sustainability of their businesses. Investing in financial education is a crucial step toward building a more stable and resilient economic future.

5. CONCLUSION

Once the work is done, it can be concluded that financial education has a very high impact on the decision-making process within organizations because it enables and expands the knowledge of managers and entrepreneurs about financial matters, which in turn plays a key role in decision-making regarding investment allocation as well as cost management. Furthermore, this research clarifies that a deep understanding of financial matters ensures the sustainability and economic development of the organization, as well as the well-being of individuals and communities. In times of crisis, the ability to adapt and be resilient is strongly influenced by financial knowledge, allowing organizations, individuals, and communities to face challenges more effectively. Finally, financial education shapes positive behaviors, encouraging saving and investment habits that are essential for building a stable financial future. On the other hand, the lack of adequate financial education results in ineffective management practices, reflected in poor decisions that compromise the viability and growth of organizations, leading to issues such as high debt and poor resource allocation. In other words, low financial literacy is directly linked to ineffective management, resulting in mistakes that affect the financial health of organizations.

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