International Journal of Advanced Research in Commerce, Management &Social Science (IJARCMSS)
ISSN : 2581-7930, Impact Factor : 6.809, Volume 05, No. 04(I), October-December, 2022, pp 183-187

APPLICATION OF MASLOW'S THEORY IN FINANCIAL PLANNING

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ABSTRACT

Financial planning is regarded as most essential education for the success of every one. The advanced countries have higher degree of financial education compared to emerging countries. This leads to over spending unscientifically on un-necessities. It is not healthy in future. The system encourages to over spend on higher needs before basic needs. So, there is a compulsory need of financial education. One of the old and good model is provided by Mr. Abraham Maslow in 1940s. This philosophy says that man has to fulfill his needs from lower to upper. So, the present study has made an attempt to study the need of financial planning for the sake of future. The study is based on secondary data which almost collected from web sources. The main findings of the study are financial literacy is the team work. Man must control his emotions before spending on luxurious items like car, foreign trips etc. Maslow's need hierarchical model is simple and best one to control ourselves from misleading advertisements.

Keywords: *Maslow's Need Hierarchy, Emerging Countries, Financial Literacy.*

Introduction

We are all aware of and have celebrated days such as Teachers day, Women's day, Children's day but did you know that October 6th is the 'World Financial Planning day' which is celebrated every year on to make people aware of financial planning. This is an initiative of the International Organization of Securities Commissions (IOSCO) wherein securities regulators across six continents promote investor education and protection. The outbreak of Covid 19 which caused chaos across the world not only took a toll on personal health but also made people rethink on their financial health. With job losses, pay cuts and closed business, we were made to realize that it is important to have an emergency fund and different income sources. Just like companies which had strong reserves were able to withstand the Covid storm, likewise individuals who planned their finances better were able to manage the sudden disruption smoothly. Hence it is always important to save for the 'rainy day'. While saving is a much needed option so is investing wherein one focuses on financial growth, security and add additional streams of income.

According to the 2021 census, 94.02%of the total population is literate, but according to a recent survey undertaken by the Securities and Exchange Board of India, only 27 per cent of India's population is financially literate.

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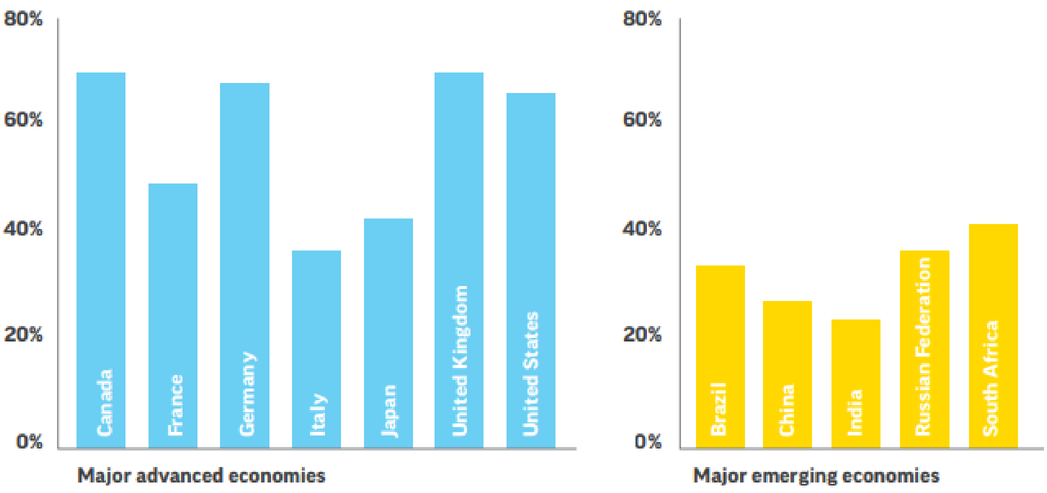


Source: S&P Global FinLit Survey by GFLEC

Financial Literacy

Financial literacy is the ability to effectively manage a variety of financial skills, such as personal finance management, budgeting, and investing. Financial investments and services have recently become widespread among people of all economic backgrounds.

Importance of Financial Literacy in India

Financial literacy is one of the biggest assets of any country as it is directly proportional to the economic growth. The significance of financial literacy in India are as follow:

- **Development of rural areas:** Reaching out to rural sections and working on their development can be achieved through financial literacy. This can be achieved by making people more aware about the available resources and right way of utilizing them.
- **Ease in borrowing:** Based on an RBI study, 42.9% of population borrowed money from informal sources and pay higher interests. A strong financial education can help small traders make informed decisions and make the best use of available resources.
- **Ease in doing business transactions:** The launch of Pradhan Mantri Jan Dhan Yojana has led to an addition of 280 million new bank accounts. These accounts have led to an ease in doing business and has also promoted cashless transactions to a great extent.
- **Growth of MSMEs:** MSMEs contribute to 29% of India's GDP with 50% of the exports coming from this sector. Financial literacy can help small businesses grow and even bring new businesses to the market.

Impact of Social Media on Financial Literacy

Social media has a huge impact in spreading financial literacy in India. It was one of the biggest influencers of rise in investment during the pandemic. Many stock market training academies, YouTube channels and websites were founded during this period. The top 15 Indian YouTube channel focusing on equity markets have a subscriber base of more than 13 million. An increase in internet penetration and popularity of these mediums, triggered a rise in popularity of investment across India. Many people from different age groups began investing in equity markets and mutual funds. The retail investors' share in cash market turnover increase from 39% in 2019 to 45% in 2020.

Government Initiative towards Financial Literacy

Strengthening financial inclusion in India has been an important agenda of the government and the various regulatory bodies such as: RBI, SEBI, IRDAI, PFRDA. Efforts have also been taken to spread awareness and increase financial literacy among small businesses. Listed below are few such initiatives taken by respective regulatory authority:

Financial planning Techniques

- **Make different plans for different reasons**

While planning, keep in mind that all the financial requirements are not immediate. Some financial requirements, like maternity expenses are needed the minute your child is born. Some financial needs arise when your child has to go to college. Keep in mind the reason why you are saving up. This will help in the long term.

- **Separate your long term financial needs from your short term financial needs**

The beauty of investing for the long term is that one can invest in options that are less risky as short them options. One can take advantage of the fixed lock in periods which offer guaranteed high returns at the end. For short term goals, one can rely more on liquid investments which they can encash any time they need.

- **Invest Early**

It is never too early to start investing. Any amount, no matter how small is too small to be invested. We can start with small amounts early than with larger amounts later on. No one knows what the future holds, so invest what you can, while you can.

- **Diversify investments**

Don't put all eggs in one basket. And that being said, look beyond regular savings bank accounts. Savings accounts are a good fool-proof option for investment, however, they offer minimal returns. Invest in mutual funds, ULIPS and other schemes. Public provident funds (PPFs) are a popular long term investment option as they offer the power of compounding interest while the advantage of a guaranteed return with no risk.

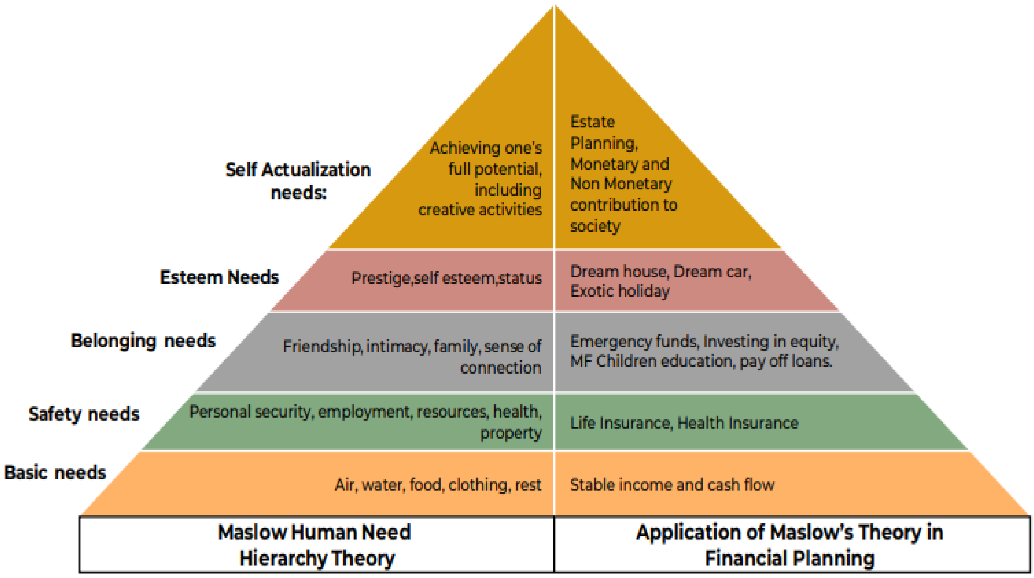
- **Consider partial withdrawal investment plans**

These plans can help with any intermediary expenses that may arise. 15-20 years are often the lock in periods for long term investments, however, most people may not have that much time on their hand. Here is where partial withdrawal plans can be a boon.

Indians Dream Big, but Financial Planning is Poor

As per a study by Aviva Life Insurance, Indians dream big however real action and financial planning to fulfill the dreams is poor. The survey consisted of two indices—The Dream Index, which connotes how Indians are aware of their life goals and Plan Index indicates how well they were financially prepared to meet these goals. The Dream Index for Indians stands at 61, whist the Plan Index stands at a dismal 24, indicating poor financial planning.

Depicting Financial Planning Through Maslow's Human Need Theory



In human psychology, Maslow's need hierarchy theory coined by Abraham Maslow in 1943, states that we tend to move up the behavioral maturity level after accomplishing initial levels. So, once we have overcome basic needs (like food, clothes & shelter), we move up to safety needs. Similarly, once safety needs are met, we move to upper levels of the pyramid like self-actualization, social respect etc. In the same way, we apply the Maslow theory in financial planning. The human needs are arranged in potent needs starting with basic survival of wealth creation and then closing in on to the highest level which is the self actualization needs of wealth distribution. It is important that our spending, investments are more or less aligned with the levels of this hierarchy for having a balanced, smooth financial life. Imagine someone who puts the esteem needs before the belonging needs. Chances are, one would end up accumulating expensive debts which would take away large shares of the money that could be invested and grown through avenues like equity, mutual funds etc.

- **Basic needs:** initially one has to focus on fulfilling the basic needs which are establishing a regular source of income which will ensure stable cash flows. Our savings is generally what remains after sustenance expenses.
- **Safety Needs:** In this level, individuals require protection measures for self and family in case of unexpected death, loss of job or any other uncertainties.
- **Belonging Needs:** In this stage, the individual might begin planning for the family's future needs such as children's education fund, emergency funds etc.
- **Esteem Needs:** Here we assume that the individual has now accumulated a certain degree of wealth and has minimal financial responsibilities. Individuals would like to reap the benefits of their amassed wealth and enjoy Exotic holidays and splurges.
- **Self Actualization needs:** Here the individual leaves legacy to the family which may involve bequeathing of wealth. They would also like to give back and support society in the form of monetary and non-monetary contribution.

That said it is important that our spending, investments are more or less aligned with the levels of this hierarchy for having a balanced, smooth financial life. Imagine someone who puts the esteem needs before the belonging needs. Chances are, one would end up accumulating expensive debts which would take away large shares of the money that could be invested and grown through avenues like equity, mutual funds etc.

Findings

- There is correlation between Maslow's need hierarchy and financial planning process.
- Those who are applying Maslow's need hierarchy will be succeeded in their lives.
- There is practicality in Maslow's need hierarchy. But, many educated do not applied this theory and surprisingly educated people have applied this theory in their common life.
- Today's system is dragging people from simple living concept. They unnecessarily encourage people to buy and use the means which are beyond their capabilities by taking loans.
- The stock regulator and Reserve bank of India are always educating people about the hierarchical financial needs of people.
- As per 2021 census, there is 94% literacy in India out of which only 27% are financially educated.
- United Kingdom, United States, Germany and Canada tops in financial literacy whereas India and China are weak in financial literacy rates.
- As per RBI survey, 42.9% of population borrowed money from informal sources and pay higher interests due to lack of financial education in India.
- The launch of Pradhan Mantri Jan Dhan Yojana has increased the financial inclusion rate in India by easing the bank account opening procedure.
- Many stock market training academies, YouTube channels and websites were founded Covid - 19 period. Many people from different age groups began investing in equity markets and mutual funds. The retail investors' share in cash market turnover increase from 39% in 2019 to 45% in 2020.
- As per a study by Aviva Life Insurance, Indians dream big however real action and financial planning to fulfill the dreams is poor.

- There is a need to take individual interest to increase the financial literacy in India, then only we can achieve the financial goal of India and us.

Suggestions

- Financial education by the government and regulatory bodies is external. We need should have passion to increase our financial knowledge.
- We need to concentrate on our education finance area. Our time, money and energy should be focused on financial education.
- Financial education is not only the asset of commerce fraternity, it can be done by even non-commerce people also with a passion of learning the concepts of savings and investments.
- We need to apply movement to movement the concept of Maslow's need hierarchy which is scientific and practical.
- We should have emotional balance to control our self from unnecessary expenses like foreign trips, luxurious spending on food, cloth and shelter.
- Direct investment in equity is possible by learning the stock investment basics by investing our little time and energy.
- It is always better to have our own education and investment hobbies rather than unnecessarily wasting our time and money on unwanted social media like serials, live shows, cricket shows, news, face book etc.
- The universities must play an active role in revising the syllabus in adding the subjects like security analysis and portfolio management.
- The necessary facilities like training, research guide shipsand practical labs must be provided to college teachers which in turn helpful to students to learn investment habits.
- Financial literacy is a teamwork. So, it must be taken passionately by the government, universities, regulatory bodies, teachers and students and common public as well.

Conclusion

From the above study it can be concluded that there is a direct correlation between life, Maslow's need hierarchy and financial planning. The advanced countries are ahead in financial literacy and India need to concentrate more on that. It is not only the duty of the government, it is the duty of every individual in educating himself along with other degrees. Since finance is life blood, we all have to apply Maslow's need hierarchy, satisfy lower needs and then only we have see upper level needs like enjoyment through foreign trips, luxurious spending etc.

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