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The Impact of Financial Literacy on Household Entrepreneurial Decision-Making: Evidence from China

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Abstract

Our study uses the 2019 China Household Finance Survey (CHFS) dataset to explore how financial literacy impacts household entrepreneurial decisions. This is an important question because financial literacy is increasingly recognized as a critical factor influencing economic behavior and outcomes at the household level. Understanding how financial literacy shapes entrepreneurial decisions can provide valuable insights for policymakers aiming to promote economic growth and reduce inequality. We apply mediation and moderation models, along with instrumental variables, to uncover that higher financial literacy deters entrepreneurship, particularly among males and couples, with a less pronounced effect in urban settings. Education levels mitigate this deterrent effect. Additionally, risk tolerance, financial preferences, and capital availability mediate the link between literacy and entrepreneurial choices.

Keywords: educational attainment, household entrepreneurial decision-making, financial literacy, financing preference, financial capital, risk preference

1. Introduction

The impact of entrepreneurship on the global economy is far-reaching. It stimulates market dynamics, promotes employment, and drives scientific and technological innovation and industrial upgrading. Entrepreneurship is an important engine of economic development, and has a significant catalytic effect, especially on countries in the innovation-driven and efficiency-driven stages. Globally, there is a positive correlation between entrepreneurial activities and GDP growth rates, indicating that entrepreneurial activities have a positive impact on economic growth. At the same time, entrepreneurship is also the key to attracting the world's best talent and resources, and globally innovative and entrepreneurially active regions have become fertile ground for attracting these resources. The results of related reports show that China's overall entrepreneurial ecology presents a better development trend, but there are typical characteristics such as household entrepreneurship, short survival time, low level of entrepreneurship, and low entrepreneurial income, which highlight the reality that entrepreneurial household entrepreneurship has a strong awareness of risk avoidance and low quality of entrepreneurship.

The improvement of financial literacy is not only conducive to enhancing the comprehensive understanding and cognition of entrepreneurial household entrepreneurship on financial knowledge, financial policies, financial instruments and financial services (Kim, 2001; Noctor et al., 1992; Orbanova & Velichova, 2013), effectively avoiding various financial risks faced in the process of entrepreneurship, and comprehensively improving the entrepreneurial ability of household entrepreneurship, but also conducive to strengthening entrepreneurial household entrepreneurship awareness and ability to use financial instruments to carry out reasonable financing, and alleviating the difficulties brought about by insufficient entrepreneurial funds to a certain extent. At the same time, it is also conducive to strengthening the awareness and ability of entrepreneurial families to utilize financial instruments for reasonable financing, and to a certain extent alleviating the entrepreneurial difficulties caused by insufficient entrepreneurial capital (Zeng, 2024). Therefore, financial literacy is of great significance in enhancing the quality of entrepreneurship and promoting the development of entrepreneurial economy (Ayhan, 2019).

Household entrepreneurship is a systematic process that includes investment, financing and risk management decision-making, and the rational planning of investment programs, the efficient selection of financing channels, and the timely adoption of risk avoidance measures all place high demands on entrepreneurs' financial literacy (Hu et al., 2023; Zhao & Li, 2021). A large number of studies have been supported on how financial literacy affects household entrepreneurial decision-making. It is usually unfolded from how financial literacy affects household entrepreneurial decision-making by influencing financial behaviors such as investment, financing, risk control, risk preference, and credit constraints (Burchi et al., 2021; Li & Qian, 2020; Liu et al., 2021; Liu et al., 2023).

Financial literacy, as an important component of entrepreneurs' entrepreneurial capabilities, undoubtedly plays an important role in entrepreneurship. The enhancement of financial literacy is conducive to cultivating and improving the awareness of financial risk prevention and investment and financial management ability of entrepreneurs and members (Li, 2020; Komarek & MacAulay, 2013), which is of great significance in practicing entrepreneurial economy (Su et al., 2024). So, does financial literacy have a significant impact on household entrepreneurial decision-making? If it affects, what is its mechanism of action? In this regard, existing studies have not paid enough attention or given a clear answer.

In view of this, this paper utilizes the data from the China Household Finance Survey (CHFS) 2019 to construct a financial literacy measurement index system from two dimensions, subjective financial knowledge and objective financial skills, to empirically test the impact and mechanism of financial literacy on household entrepreneurial decision-making. Compared with the existing literature, the innovations of this paper are mainly reflected in the following:

1) The different impacts of financial literacy, subjective financial knowledge and objective financial skills on household entrepreneurial decision-making are analyzed, as well as the moderating effect of Educational attainment, so as to promote the localized application of financial literacy-related research in the study of actual entrepreneurial problems in China.

2) Entrepreneurial subjects of different genders, marital statuses and household domiciles are divided to analyze the effects of financial literacy on household entrepreneurial decision-making of different entrepreneurial subjects, which will help policymakers implement targeted support policies for different types of entrepreneurial households.

3) It explores the role mechanism of financial literacy affecting household entrepreneurial decision-making from three aspects: risk preference, financing preference and financial capital, which enriches the empirical content of entrepreneurship research.

The remainder of the study is organized as follows: The second section is the Theoretical Framework. The third section outlines the Research Hypotheses. The fourth section describes the Research Data and Methods. The fifth section presents the Regression Results. The sixth section is the Discussion, which includes limitations of the study and suggestions for further research. The seventh section is the Conclusion.

2. Theory

Entrepreneurial capability theory emphasizes the importance of individual capabilities and knowledge for entrepreneurial activities (Evans & Leighton, 1990). In this theoretical framework, entrepreneurial capabilities are not only limited to technological innovation or market insight, but also include multidimensional capabilities such as risk management, resource allocation and strategic planning. Individuals with high levels of entrepreneurial competence are able to cope with market changes and uncertainty in a more flexible and efficient manner, so they are able to effectively deploy limited resources and optimize their business models to reduce the impact of insufficient capital on their entrepreneurial activities in the face of capital constraints.

In addition, a high level of entrepreneurial competence can mitigate various difficulties in the entrepreneurial process, such as market access barriers, resource acquisition challenges, and business management challenges (Say, 1836). These difficulties are often significant problems faced by entrepreneurs at the start-up stage, and strong entrepreneurial competencies can help entrepreneurs understand and cope with these challenges from a more comprehensive perspective, reducing the risk of failure and thus increasing the likelihood of entrepreneurial success. These capabilities include market analysis, team management, and financial planning, all of which are important components of successful entrepreneurship.

More importantly, an individual's entrepreneurial ability is not limited to the entrepreneur's own individual qualities, but is also closely related to the financial literacy of his or her family members. The financial literacy of family members can have an impact in the following aspects. First, family members with high financial literacy usually have richer financial knowledge and higher ability to recognize risks, which enables them to provide more effective support and advice during the entrepreneurial process. Second, household entrepreneurial decision-making is often influenced by the interactions among family members, and a high financial literacy family environment can motivate entrepreneurs to pursue entrepreneurial opportunities more aggressively and reduce possible mistakes in financial decision-making.

In summary, the theory of entrepreneurial competence provides an important perspective for understanding the key factors that contribute to entrepreneurial success. In turn, the financial literacy of family members provides additional support to entrepreneurs, thereby promoting entrepreneurial activity. This reveals that in the process of promoting entrepreneurship development, in addition to emphasizing the improvement of individual capabilities, attention should also be paid to the family environment and the impact it brings.

3. Hypotheses

Entrepreneurial competence is one of the key factors that determine whether an entrepreneur starts a business or not. Entrepreneurs with higher entrepreneurial competence can alleviate the limiting effect of capital on entrepreneurship (Evans & Leighton, 1990), reduce the difficulties that may be encountered in the process of entrepreneurship (Buera, 2009), and thus increase the chances of entrepreneurial success (Say, 1836).

Financial literacy, as an important component of human capital, represents to some extent the entrepreneurial ability of entrepreneurs and has an important impact on entrepreneurial decisions. First, family members with high financial literacy usually have better financial knowledge and computational ability, have rational cognition of entrepreneurial risks and returns, and prefer stable but less strenuous employment activities, so subjective financial literacy inhibits family members from engaging in entrepreneurship (Guo et al., 2024). Second, family members with high financial literacy are able to effectively assess financing channels and clearly understand information on entrepreneurial financing due to their mastery of more financial instruments, and are more inclined to obtain financing support through formal channels, thus promoting entrepreneurship among family members (Xu & Jiang, 2024).

However, it should be noted that compared with traditional financing channels, the amount of entrepreneurial capital obtained by family members through financial instruments is limited, and the impact on household entrepreneurial decision-making is relatively small, so overall financial literacy may inhibit household entrepreneurial decision-making to a certain extent.

Hypothesis 1: Financial literacy negatively affects household entrepreneurial decision-making.

Hypothesis 1a: Subjective financial knowledge negatively affects household entrepreneurial decision-making.

Hypothesis 1b: Objective financial skills positively affect household entrepreneurial decision-making.

Financial literacy can influence household entrepreneurial decision-making by increasing risk preference. Increased financial literacy can help to change the risk preference of family members so that they are more willing to explore those entrepreneurial activities with higher risks and rewards (Jiang et al., 2023; Li & Ahlstrom, 2020). In general, entrepreneurs with higher levels of financial literacy usually have greater risk tolerance and are more likely to choose those entrepreneurial activities with higher risks and rewards (Wang et al., 2020; Kefan et al., 2011); on the contrary, entrepreneurs with lower levels of financial literacy have a greater preference for employment activities with lower risks and more stable rewards.

Hypothesis 2: Risk preference has a mediating effect in the impact of financial literacy on household entrepreneurial decision-making.

Financial literacy can influence household entrepreneurial decision-making by changing financing preferences. When household entrepreneurship is faced with the dilemma of insufficient own funds, it can utilize the national loan policy to obtain formal financing on the one hand, and rely on kinship and community ties to obtain informal financing on the other, and the choice depends on their assessment of the cost and difficulty of financing from both channels (Gathergood, 2012; Weng et al., 2022). Household members with higher levels of financial literacy have a better understanding of the application process for formal channel credit and how to select appropriate credit products, and thus have a greater financing preference for formal financing. On the contrary, family members with lower levels of financial literacy are less aware of financing through formal financing channels due to insufficient financial knowledge reserves, and thus prefer informal financing.

Hypothesis 3: Financing preference has a mediating effect in the impact of financial literacy on household entrepreneurial decision-making.

Financial literacy can influence household entrepreneurial decision-making by improving access to financial capital. Household entrepreneurship, when faced with the dilemma of insufficient own capital, will generally consider obtaining entrepreneurial capital through formal financing channels. Family members with higher financial literacy can utilize financial products, stocks, funds, credit cards and other financial tools to obtain more financial resources due to the possession of richer financial tools, thus effectively solving the problem of insufficient entrepreneurial capital and enhancing the probability of household entrepreneurship in their household (Blume, 2019). On the contrary, family members with lower financial literacy lack the ability to access financial resources, and the probability of household entrepreneurship is lower.

Hypothesis 4: Financial capital mediates the effect of financial literacy on household entrepreneurial decision-making.

The impact of financial literacy on household entrepreneurial decision-making is mainly reflected in two aspects: subjective financial knowledge affects the risk preference of household members, and objective financial skills affect the ability of household members to utilize financial instruments to obtain entrepreneurial capital. Entrepreneurship education activities provided by colleges and universities can help family members acquire entrepreneurial knowledge and financing ability from other sources, which in turn attenuates the impact of financial literacy, subjective financial knowledge and objective financial skills on household entrepreneurial decision-making. Therefore, Educational attainment plays a negative moderating role between financial literacy, subjective financial knowledge, objective financial skills and household entrepreneurial decision-making.

Hypothesis 5: Educational attainment has a negative moderating effect between financial literacy and household entrepreneurial decision-making.

Hypothesis 5a: Educational attainment has a negative moderating effect between subjective financial literacy and household entrepreneurial decision-making.

Hypothesis 5b: Educational attainment has a negative moderating effect between objective financial skills and household entrepreneurial decision-making.

4. Methodology

4.1 Data Sample

The data used in this paper comes from the 2019 survey data of the “China Household Finance Survey (CHFS)” by the Family Finance Center of Southwestern University of Finance and Economics. The survey covers 29 provinces (autonomous regions and municipalities directly under the central government), except Tibet, Xinjiang, Hong Kong, Macao and Taiwan, with a total sample of 34,643 households. Given that this paper mainly focuses on household samples, and considering that the probability of household members who are too old or too young to engage in entrepreneurship is small, the samples with missing key variables are deleted, and the data of 14,857 households with the head of the household between the ages of 18 and 65 are selected. It is worth stating that in order to better deal with the relationship between individual and household variables, the following data processing is carried out in this paper: firstly, for the case where only one household member is engaged in entrepreneurship, it is assumed that the household member is the entrepreneurial main body; secondly, for the case where more than one household member is involved in entrepreneurship, it is assumed that the adult is more likely to be the centerpiece of household entrepreneurship, and thus the data of the children and the elderly are not taken into account; If the household consists of only adult females, the data of adult females are selected as individual data; if the household consists of both adult males and females, the data of adult males are selected as individual data.

4.2 Variables

1) Dependent variable

Household entrepreneurial decision-making is the dependent variable of this paper, and the title of household entrepreneurial decision-making is ‘Is your household engaged in industrial and commercial production and operation projects, including self-employment, leasing, transportation, online store, microbusiness, purchasing on behalf of others, and operating a company enterprise?’.

2) Independent variables

Financial literacy is the core independent variable in this paper. In order to assess the impact of financial literacy on household entrepreneurial decision-making, this paper refers to Huston, Finke, and Smith’s (2012) categorization of financial literacy, and constructs a financial literacy measurement index system from the dimensions of subjective financial knowledge and objective financial skills. Subjective financial knowledge includes information attention, financial product understanding, stock risk identification, fund risk identification, interest rate calculation problems and inflation problems.

The variables are assigned values according to the usual attention to economic and financial information, and the selection of very concerned, relatively concerned and generally concerned is assigned a value of 1, and the selection of seldom concerned and never concerned is assigned a value of 0. The variables are assigned values according to the degree of understanding of financial products, and the selection of very informed, relatively informed and generally informed is assigned a value of 1, and the selection of relatively uninformed, and never informed is assigned a value of 0. The variables are assigned values according to the ability to answer correctly the questions of interest rate calculations and Inflation calculation questions were assigned a value of 1 for correct answers and 0 for incorrect answers. Objective financial skills include ownership of financial products, internet financial products, stock accounts, fund accounts, credit card accounts, and other financial products (bonds, financial derivatives, foreign currency assets, and precious metals). Values are assigned based on whether or not one owns these financial product accounts, with owning assigned a value of 1 and not owning assigned a value of 0.

It is generally believed that the higher the score, both in terms of subjective financial knowledge and objective financial skills, the higher the financial literacy. In order to verify the appropriateness of the classification method of financial literacy, this paper uses the method of factor analysis to extract the common factor. As can be seen from Table 1, the overall Cronbach’s coefficient reaches 0.85, which is greater than 0.7, and the Cronbach’s coefficients of all the indicators are greater than 0.7, which indicates that the factors are more credible and suitable for factor analysis. The principal component analysis and variance maximization method were used to rotate the factors, and the common factors were determined according to the factor variance contribution rate and the characteristic root, and two common factors with characteristic root greater than 1 were selected, which can reflect financial literacy to a certain extent.

Table 1. Results of financial literacy factor analysis

Factor names	Raw indicators	KMO value
Subjective financial literacy	Information attention	0.80
	Level of understanding of financial products	0.83
	Stock risk identification	0.91
	Fund risk identification	0.82
	Interest rate calculation issues	0.84
	Inflation calculation issues	0.88
Objective financial skills	Financial products	0.88
	Internet financial products	0.83
	Stock account	0.88
	Fund accounts	0.90
	Credit cards	0.87
	Other financial products	0.83
	Full sample	0.85

3) Control variables

Based on previous literature, this paper selects individual characteristic variables, household characteristic variables and regional variables as control factors. Individual characteristic variables include age, gender, Educational attainment, physical health status, marital status, experience of working outside the home and household registration, etc.; family characteristic variables include family size, proportion of family labor force and total family assets, etc.; and regional variables are determined according to the province where the family is located.

4) Intermediary variables

This paper selects the choice of risky investment behavior of family members to measure risk preference, and tends to invest in high-risk and high-return projects, assigning the value of 1, and tends to invest in low-risk and low-return projects, assigning the value of 0. Family members can be financed through formal and informal channels, and this paper selects the channels from which they tend to be financed to measure financing preference, and tends to be financed from platforms such as banks, Alipay and so on, assigning the value of 1, and tends to be financed from relatives and friends, assigning the value of 0. The value is 1, and the value is 0. Loans from formal financial institutions are the main source of financial capital for family members, and this paper selects the credit availability of formal financing channels such as bank loans, revolving loans, and

Internet loans to measure the financial capital, and the value is 1 for those who have had formal financing experience, and the value is 0 for those who have not had any formal financing experience.

5) Adjustment variables

In this paper, Educational attainment is selected as a moderating variable, and Educational attainment is measured by the level of education of the research participants.

As can be seen from Table 2, the mean value of financial literacy (simple sum) of the interviewed household members is only 2.126, indicating that the level of financial literacy of the interviewed household members is relatively low. The number of household entrepreneurship among the interviewed households is 2273, which is 15.3% of the total sample. In other words, the majority of the 14,857 households in the 2019 sample are not household entrepreneurship.

Table 1. Definition of variables and descriptive statistics

Variables	averages	standard deviation	minimum	maximum
Financial literacy (factor analysis)	0	0.833	-2.045	3.775
Financial literacy (simple summation)	2.126	2.069	0	12
Subjective financial literacy	0	1.054	-2.88	5.287
Objective financial skills	0	1.011	-3.107	2.456
Household entrepreneurial decision-making	0.153	0.36	0	1
Gender	0.775	0.418	0	1
Age	49.314	9.484	18	65
Educational attainment	9.961	3.678	0	22
Health status	2.62	0.982	1	5
Marital status	0.892	0.311	0	1
Migrant worker experience	0.135	0.342	0	1
Household registration	0.336	0.472	0	1
Household size	2.575	0.941	1	8
Percentage of household labor force	0.937	0.159	0.333	1
Total household assets	12.998	1.538	0	20.414
Risk preference	0.1	0.3	0	1
Financing preference	0.603	0.489	0	1
Financial capital	0.027	0.163	0	1

4.3 Modeling

1) Benchmark modeling

To investigate the relationship between financial literacy and household entrepreneurial decision-making, the following regression model was developed:

$$Prob(y=1)=\partial_1 FL_i+\beta X_i+\varepsilon_i \tag{1}$$

where the explanatory variables represent household entrepreneurial decision-making, where FL_i denotes the level of financial literacy in the ith sample, ∂_1 is the estimated coefficient indicating the magnitude of the effect of financial literacy on household entrepreneurial decision-making, X_i is the control variable, β is the estimated coefficient of the control variable, and ε_i is the random disturbance term.

2) Mediation effect modeling

In order to examine the mechanism of financial literacy on household entrepreneurial decision-making, a mediation effect model was developed as follows:

$$Prob(y=1)=\partial_1 FL_i+\beta X_i+\varepsilon_i \tag{1}$$

$$M=\partial_2 FL_i+\beta X_i+\varepsilon_i \tag{2}$$

$$Prob(y=1)=\partial_3 FL_i+\delta_1 M+\beta X_i+\varepsilon_i \tag{3}$$

Model 1 has been described in detail and will not be repeated here. In Model 2, M is the mediating variable, denoting risk preference, financing preference, or financial capital, ∂_2 is the estimated coefficient of financial literacy, denoting the magnitude of the effect of financial literacy on risk preference, financing preference, or financial capital, and the rest of the variables are the same as above. In Model 3, both the core explanatory variable (financial literacy) and the mediating variable (risk preference, financing preference, and financial capital) are brought into the regression equation, ∂_3 is the estimated coefficient of financial literacy, which indicates the magnitude of financial literacy's influence on household entrepreneurial decision-making, δ_1 is the estimated coefficient of risk preference, financing preference, or financial capital, which indicates the risk preference, financing preference, or financial capital's influence on household entrepreneurial decision-making, and the rest of the variables are as above. Size and the rest of the variables are the same as above.

3) Moderating effect modeling

Considering that educational attainment may have a moderating effect in the impact of financial literacy on household entrepreneurial decision-making, this paper analyzes the moderating effect of educational attainment in the impact of financial literacy on household entrepreneurial decision-making by substituting the interaction term of financial literacy and educational attainment into Model 1, and obtains Equation 4:

$$Prob(y=1)=\partial_1 FL_i+\beta X_i+\gamma_1 E_i FL_i+\varepsilon_i \tag{4}$$

where FL_i denotes the level of financial literacy in the ith sample, ∂_1 is the estimated coefficient indicating the magnitude of the effect of financial literacy on household entrepreneurial decision-making, E_iFL_i denotes the interaction term between financial literacy and Educational attainment, γ_1 is the estimated coefficient of the interaction term, and the rest of the variables are the same as above.

5. Data analysis

5.1 Base Regression Analysis

According to Model 1 in Table 3, financial literacy has a significant negative effect on household entrepreneurial decision-making, passing the significance test at the 1% level and supporting Hypothesis H1. Improving financial literacy can significantly reduce the probability of household entrepreneurship, the possible reason for this is that as family members' financial literacy improves, their basic financial knowledge and computational skills are strengthened, and they are more rational in their perception of entrepreneurial risks and benefits, and less willing to engage in entrepreneurial activities, thus reducing the probability of household entrepreneurship.

The China Youth Entrepreneurship Development Report (2021) jointly released by China Youth Entrepreneurship and Employment Foundation and Zeping Macro, as well as the County Entrepreneurship Report 2020 jointly released by Tsinghua University and 58Town, show that among the industries engaged in by entrepreneurial groups, the share of agriculture, forestry, animal husbandry and fishery has reached 20.8%, and that of wholesale and retail trade has reached 15.9%, reflecting the tendency of entrepreneurs to choose the technical and capital The threshold is not high for low-risk industries. The annual business income of entrepreneurial enterprises is concentrated at 50,000-70,000 yuan, and more than 80% of the entrepreneurial enterprises have an annual net profit of less than 100,000 yuan, reflecting that the entrepreneurial returns are not high. It can be seen that family members with higher financial literacy would be more inclined to choose a stable but relatively non-hard-working unit for employment rather than the entrepreneurial behavior which does not have high returns but is very hard working.

Table 2. The impact of financial literacy on household entrepreneurial decision-making

Variables	Model 1	Model 2	Model 3	Model 4
	Entrepreneurial decision-making			
Financial literacy	-0.063***		0.233***	
	(0.017)		(0.061)	
Subjective financial literacy		-0.087***		0.071**
		(0.013)		(0.032)
Objective financial skills		0.209***		0.501***
		(0.016)		(0.041)
Educational attainment	-0.047***	-0.052***	-0.047***	-0.038***
	(0.004)	(0.005)	(0.004)	(0.005)
Financial literacy* Educational attainment			-0.023***	
			(0.005)	
Subjective financial literacy* Educational attainment				-0.010***
				(0.002)
Objective financial skills* Educational attainment				-0.026***
				(0.004)
control variable	YES	YES	YES	YES
Observations	14,857	14,857	14,857	14,857

Note. *, **, *** indicate significant at the 10%, 5%, and 1% levels, respectively, with standard errors in parentheses.

According to Model 2 in Table 3, subjective financial knowledge has a significant negative effect on household entrepreneurial decision-making, while objective financial skills have a significant positive effect, passing the significance test at the 1% level and supporting hypotheses H1a and H1b. Subjective financial knowledge enhancement decreases the probability of household entrepreneurship, and the possible reasons are the same as the explanations in Model 1 in Table 3, which will not be repeated here. Objective financial skills enhancement increases household entrepreneurship probability, the possible reason is that objective financial skills enhancement can enhance the ability of family members to use financial products, stocks, funds, credit cards and other financing tools for financing, ensure more funds for entrepreneurial activities, enhance the probability of success of household entrepreneurship, and make entrepreneurs more confident to engage in entrepreneurial activities.

According to Table 3 Model 3 shows that Educational attainment plays a negative moderating role between financial literacy and household entrepreneurship decision-making, which passes the test of significance at the 1% level in support of Hypothesis H5. The probable reason for this is that the ways of acquiring financial knowledge and skills are diversified, and increasing the level of educational attainment of household members allows them to acquire the financial knowledge and skills necessary for entrepreneurship through other channels, thus attenuating to a certain extent the negative impact of financial literacy on household entrepreneurial decision-making. According to Table 3 Model 4 shows that Educational attainment has a negative moderating effect between subjective financial knowledge and objective financial skills and household entrepreneurial decision-making, which passes the test of significance at the 1% level and supports hypotheses H5a and H5b. It indicates that instead of reinforcing the influence of subjective financial knowledge and objective financial skills on household entrepreneurial decision-making, the increase in the level of educational attainment of the family members weakened their influence. The possible reasons for weakening the negative impact of subjective financial knowledge are described in Model 3 of Table 3 and will not be repeated here. The possible reason for weakening the positive impact of objective financial skills is that the increase in academic education allows household members to be more rational about the risks of using financial instruments for financing, instead weakening the probability of using financial instruments for financing, and thus reducing the probability of household entrepreneurship.

5.2 Robustness Tests and Endogeneity Analysis

5.2.1 Robustness Tests

In order to verify the robustness of the results of the impact of financial literacy on household entrepreneurial decision-making, this paper conducted a robustness test by adjusting the independent variables. The previous calculations of financial literacy were derived based on the results of factor analysis, and in the robustness test section, the robustness test was conducted by using a direct and simple summation to derive the financial literacy values. According to Table 4 Model 1 and Model 2 show that financial literacy and subjective financial knowledge have a significant negative impact on household entrepreneurial decision-making without considering the moderating effect, and objective financial skills have a significant positive impact on household entrepreneurial decision-making, which passes the significance test at the 1% level. Whereas, with consideration of moderating effects, according to Table 4 Model 3 and Model 4 show that Educational attainment has negative moderating effect on financial literacy, subjective financial knowledge and objective financial skills on household entrepreneurial decision-making and passes the significance test at 1% level.

5.2.2 Endogeneity Analysis

Financial literacy and household entrepreneurial decision-making may be endogenous for a number of reasons, including omitted variables and reverse causality. On the one hand, household entrepreneurial decision-making is affected by unobservable factors such as entrepreneurial ability and achiever traits, and family members with higher financial literacy tend to have stronger entrepreneurial ability and certain innate achiever traits, leading to the presence of omitted variables. On the other hand, household entrepreneurial decision-making affects the level of financial literacy, and family members who intend to engage in entrepreneurship will actively learn all kinds of financial knowledge, master all kinds of financial tools, and improve their own level of financial literacy, resulting in a reverse causal relationship.

To effectively address these endogeneity issues, the financial literacy water mean of other family members in the same region was chosen as an instrumental variable for respondents' financial literacy level (Kara, 2012). Three main reasons support this approach: first, respondents can improve their financial literacy level by learning from other individuals in the same region, so the financial literacy of other family members in the same region is more relevant to respondents. Second, the financial literacy of other family members in the same region is not manipulated by the respondent and is more exogenous compared to factors such as the respondent's entrepreneurial ability. Finally, the relationship between financial literacy of other family members in the same region and respondents' entrepreneurial choices is strictly exogenous. Therefore, the level of financial literacy of other household members in the same region can be considered as a valid instrumental variable.

In order to examine the effect of endogenous bias on the estimation results, the paper first tested the presence of endogenous bias in the baseline model, i.e., whether financial literacy is correlated with the disturbance term, and the results of the test (P=0.0000) show that financial literacy is considered as an endogenous variable at the 1% level. According to Table 4 Model 5 and Model 6 show that the results of the validity test using instrumental variables show that in the first stage regression, the instrumental variables have positive regression coefficients and pass the test of significance at the 1% level and are biasedly related to the endogenous explanatory variables. In addition, the Wald F-statistic takes a value of more than 10, so the instrumental variables selected in this paper are reasonable and there is no weak instrumental variable problem. After controlling for endogeneity bias using a two-stage Probit model, financial literacy is found to have a significant negative effect on household entrepreneurial decision-making and passes the significance test at the 1% level, hypothesis H1 is plausible.

Table 3. Robustness tests and endogeneity analysis

Variables	Robustness tests				Endogeneity analysis	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
	Entrepreneurial decision-making				Stage I	Stage II
Financial Literacy (factor analysis)					0.002***	-0.127***
					(0.000)	(0.027)
Financial Literacy (simple summation)	-0.020***		0.094***			
	(0.007)		(0.012)			
Subjective financial literacy		-0.086***		0.097***		
		(0.013)		(0.032)		
Objective financial skills		0.215***		0.533***		
		(0.016)		(0.040)		
Educational attainment	-0.055***	-0.048***	-0.056***	-0.019***		
	(0.004)	(0.004)	(0.004)	(0.005)		
Financial literacy* Educational attainment			-0.023***			
			(0.002)			
Subjective financial literacy* Educational attainment				-0.012***		
				(0.002)		
Objective financial skills* Educational attainment				-0.024***		
				(0.004)		
Control variable	YES	YES	YES	YES	YES	YES
Observations	14,857	14,857	14,857	14,857	14,857	14,857
One-stage estimated F-value					291.51	
Wald chi2					1116.46	
P-value					0.000	

Note. *, **, *** indicate significant at the 10%, 5%, and 1% levels, respectively, with standard errors in parentheses.

5.3 Heterogeneity Analysis

In order to analyze the impact of financial literacy on household entrepreneurial decision-making in more detail, this section analyzes heterogeneity based on the categorical perspectives of gender, marital status, and household registration.

5.3.1 The Impact of Financial Literacy on Household Entrepreneurial Decision-Making in Different Gender Samples

According to Model 1 and Model 2 in Table 5, financial literacy has a significant negative effect on household entrepreneurial decision-making in the case of males, which passes the test of significance at the 1% level, while it does not have a significant effect on household entrepreneurial decision-making in the case of females. This indicates that the level of financial literacy affects the probability of family members of different genders to engage in entrepreneurship. The possible reason for this is that compared to women, men are in a more advantageous position in the job market, and as the level of financial literacy increases, men are more financially literate and will be more rational in assessing the entrepreneurial risks that they may face (Kubak et al., 2021), while the economic gains from the entrepreneurial activity itself are not as significant, which will inhibit the probability of men's entrepreneurial endeavors. Women, on the other hand, are in a relatively disadvantaged position in the job market, and may be forced to choose to start a business in an industry with a low technological and financial threshold due to the lack of good employment opportunities, and this type of entrepreneurship does not require a high level of entrepreneurial financial literacy, which leads to a non-significant impact of financial literacy on the entrepreneurial decision-making of female household entrepreneurial decision-making.

According to Table 5 Models 3 and 4 show that Educational attainment has a negative moderating effect between financial literacy and household entrepreneurial decision-making for male entrepreneurs, and does not have a moderating effect between financial literacy and household entrepreneurial decision-making for female entrepreneurs. The possible reasons for this are as described in Table 3 Model 3 and will not be repeated here.

Table 4. The effect of financial literacy on household entrepreneurial decision-making in different gender samples

Variables	Genders			
	Model 1	Model 2	Model 3	Model 4
	female	male	female	male
Financial Literacy	-0.020	-0.078***	0.077	0.294***
	(0.033)	(0.020)	(0.120)	(0.071)
Educational attainment	-0.074***	-0.040***	-0.074***	-0.041***
	(0.009)	(0.005)	(0.009)	(0.005)
Financial literacy* Educational attainment			-0.007	-0.028***
			(0.009)	(0.005)
Control variable	YES	YES	YES	YES
Observations	3,341	11,516	3,341	11,516

Note. *, **, *** indicate significant at the 10%, 5%, and 1% levels, respectively, with standard errors in parentheses.

5.3.2 The Impact of Financial Literacy on Household Entrepreneurial Decision-Making in Samples with Different Marital Statuses

According to Model 1 and Model 2 in Table 6, financial literacy has a non-significant effect on household entrepreneurial decision-making for households without spouses, and only has a significant negative effect on household entrepreneurial decision-making for households with spouses, which passes the significance test at the 1% level. The possible reason is that households with spouses bear more family responsibilities, will be more cautious about the risks of entrepreneurship and consider the returns from entrepreneurship more rationally, so improving financial literacy will prompt households with spouses to evaluate entrepreneurial risks and rewards more rationally, thus reducing the probability of entrepreneurship; whereas households without spouses lack the pressure of family responsibilities, and are bolder in entrepreneurship, and pay less attention to their own financial literacy and the ability to utilize financial instruments to raise funds. Ability, thus the effect on entrepreneurial decision-making is not significant.

Table 5. The impact of financial literacy on household entrepreneurial decision-making in samples with different marital statuses

Variables	Marital status			
	Model 1	Model 2	Model 3	Model 4
	Spouseless	Spousal	Spouseless	Spousal
Financial Literacy	-0.015	-0.069***	0.631***	0.191***
	(0.053)	(0.018)	(0.191)	(0.064)
Educational attainment	-0.064***	-0.046***	-0.068***	-0.047***
	(0.015)	(0.005)	(0.015)	(0.005)
Financial literacy* Educational attainment			-0.047	-0.020***
			(0.014)	(0.005)
Control variable	YES	YES	YES	YES
Observations	1,607	13,250	1,607	13,250

Note. *, **, *** indicate significant at the 10%, 5%, and 1% levels, respectively, with standard errors in parentheses.

According to Model 3 and Model 4 in Table 6, Educational attainment has a significant negative moderating effect between financial literacy and household entrepreneurial decision-making of family members with spouses. The possible reasons for this are described in model 3 of table 3 and will not be repeated here.

5.3.3 The Impact of Financial Literacy on Household Entrepreneurial Decision-Making in Different Household Samples

Table 6. The impact of financial literacy on household entrepreneurial decision-making in different household samples

Variables	County			
	Model 1	Model 2	Model 3	Model 4
	Rural	Town	Rural	Town
Financial Literacy	0.205**	-0.046**	0.219	0.128**
	(0.081)	(0.018)	(0.283)	(0.065)
Educational attainment	-0.070***	0.018*	0.017	-0.070***
	(0.005)	(0.010)	(0.012)	(0.005)
Financial literacy* Educational attainment			-0.001	-0.013***
			(0.029)	(0.005)
Control variable	YES	YES	YES	YES
Observations	4,990	9,867	4,990	9,867

Note. *, **, *** indicate significant at the 10%, 5%, and 1% levels, respectively, with standard errors in parentheses.

According to Table 7 Model 1 and Model 2 show that financial literacy has a significant positive effect on rural household entrepreneurial decision-making and a significant negative effect on urban household entrepreneurial decision-making, which passes the significance test at the 5% level. This suggests that the level of financial literacy affects household entrepreneurial decision-making across different households. The possible reason is that cities have more good employment opportunities, and improving financial literacy makes family members more inclined to choose stable jobs, so the improvement of financial literacy instead reduces the probability of urban households engaging in entrepreneurship; whereas rural employment opportunities are scarce but the cost of entrepreneurship is relatively low ,and improving financial literacy enables family members to master more channels to use financial instruments for financing, which helps to promote rural households' Entrepreneurship.

According to Model 3 and Model 4 in Table 7, Educational attainment has a negative moderating effect between financial literacy and household entrepreneurial decision-making for urban household members, but no significant negative moderating effect for rural households. The possible reason is that the vast majority of China's high-quality educational resources are concentrated in the cities, and relevant financial courses are offered in many schools in the cities, urban household members may receive higher quality financial education, which attenuates the negative effect of financial literacy on household entrepreneurial decision-making to a certain extent. Rural household members, on the other hand, have fewer opportunities to receive quality education, especially financial education, which is not enough to moderate the impact of financial literacy on household entrepreneurial decision-making, but at the same time, it also suggests that rural household members are better equipped to engage in entrepreneurial activities once they have mastered financial literacy.

5.4 Mechanism of Action Validation

According to Table 8 Model 1, Model 3, Model 5 and Table 3 Model 1 shows that financial literacy has a significant positive effect on the mediating variables (risk preference, financing preference, and financial capital), and household entrepreneurial decision-making, and passes the significance test at the 1% and 5% level. According to Table 8 model 2, model 4 and model 6 show that financial literacy, mediating variables (risk preference, financing preference, financial capital) have a significant positive effect on household non-farm entrepreneurial decision-making and pass the test of significance at 1% and 5% level, which indicates that the mediating variables (risk preference, financing preference, financial capital) have a mediating effect in the effect of financial literacy on household non-farm entrepreneurial decision-making. And the influence coefficients of financial literacy on household entrepreneurial decision-making in Model 2, Model 4 and Model 6 in Table 8 (0.016, 0.014 and 0.009) are smaller than the influence coefficients in Model 1 in Table 3 (0.063), which indicates that there is a partial mediation effect.

Table 7. Mechanisms of financial literacy on household entrepreneurial decision-making

Variables	Model 1 Risk preference	Model 2 Entrepreneurial decision-making	Model 3 Financing preference	Model 4 Entrepreneurial decision-making	Model 5 Financial capital	Model 6 Entrepreneurial decision-making
Financial Literacy	0.120*** (0.003)	-0.016*** (0.004)	0.048*** (0.015)	-0.015** (0.012)	0.004*** (0.001)	-0.009** (0.004)
Risk preference		0.22** (0.010)				
Financing preference				0.35** (0.017)		
Financial capital						0.807*** (0.016)
Control variable	YES	YES	YES	YES	YES	YES
Observations	14,857	14,857	14,857	14,857	14,857	14,857
R-squared	0.141	0.057	0.089	0.095	0.005	0.202

Note. *, **, *** indicate significant at the 10%, 5%, and 1% levels, respectively, with standard errors in parentheses.

Among them, the proportion of risk preference mediation effect is (0.22*0.12)/0.063=41.9%, which indicates that the improvement of financial literacy can enable family members to acquire more knowledge and skills to control entrepreneurial risks, dare to invest in more high-risk and high-return entrepreneurial projects, and enhance the probability of household entrepreneurship, and the hypothesis H2 is verified.

The mediating effect of financing preference accounts for (0.35*0.048)/0.063=26.7%, which suggests that improved financial literacy allows household members to have a clearer understanding of the process of applying for credit through formal channels as well as how to select appropriate credit products, effectively assess and prejudge through which channels loans are more favorable, and to be more biased in favor of formal financing, which enhances the probability of household entrepreneurship, and Hypothesis H3 is verified.

The share of financial capital mediation effect is (0.004*0.807)/0.063=5.12%, which indicates that the improvement of financial literacy allows farmers to make better use of financial instruments for financing and solve the problem of insufficient funds for entrepreneurial enterprises, thus enhancing the probability of household entrepreneurship, and Hypothesis H4 is verified.

6. Discussion

6.1 Limitations

First, the study did not cover multiple time periods. The China Household Financial Center (CHFS) database contains six periods of data from 2011, 2013, 2015, 2017, 2019 and 2021, providing a reliable data base for cross-period studies to analyze the characteristics of financial literacy and household entrepreneurial decision-making in different periods. However, since financial literacy is an area that has received much attention in recent years, there are fewer financial literacy measurement topics in the five-period database before 2019 and 2021, which cannot meet the research needs of this paper, so only the data from 2019 is selected for this paper. Future research could consider more cross-period studies as new data become available.

Second, the system of financial literacy measurement indicators is still not perfect. Although the 12 topics extracted from the 2019 CHFS database as financial literacy measurement indicators can reflect the basic characteristics of financial literacy relatively well, they still fail to show the core characteristics of financial literacy comprehensively. In future research, more comprehensive assessment indicators can be obtained by designing the questionnaire on its own to better explore the relationship between financial literacy and household entrepreneurial decision-making.

6.2 Suggestions for Further Research

Krishnan (2013) posits that scholars in the field of operations management ought to earnestly contemplate the integration of entrepreneurial themes into their research agendas, given the pivotal role that entrepreneurship plays in modern societies. The increasing prevalence of the term "entrepreneurship" within the discourse of operations research publications suggests that such a call is gaining traction and finding a receptive audience. Promoting entrepreneurship development requires not only upgrading the professional skills of entrepreneurs, but also focusing on the development of their financial literacy. Further research is needed in the future on how financial literacy affects entrepreneurial decision-making and performance, which could provide entrepreneurs with more comprehensive guidance and help them to make smarter financial plans during the entrepreneurial process, thus ensuring the sustainability and success of their entrepreneurial projects and ultimately achieving superior performance.

7. Conclusions

Using data from the 2019 China Household Finance Survey (CHFS), this paper analyzes the impact and mechanism of financial literacy on household entrepreneurial decision-making. It is found that financial literacy has a significant inhibitory effect on household entrepreneurial decision-making, and in terms of sub-dimensions, subjective financial knowledge has an inhibitory effect on household entrepreneurial decision-making, and objective financial skills have a facilitating effect on household entrepreneurial decision-making. Educational attainment has a negative moderating effect between financial literacy, subjective financial knowledge and objective financial skills and household entrepreneurial decision-making. The obtained conclusions still hold after the robustness test and endogeneity analysis. The results of the heterogeneity analysis show that financial literacy has a significant inhibitory effect on male and spousal household entrepreneurial decision-making only, and shows an opposite effect on urban and rural household entrepreneurial decision-making. The mechanism of action analysis shows that the mechanism of action of financial literacy on household entrepreneurial decision-making mainly enhances the probability of household entrepreneurship by increasing risk preference, changing financing preference, and improving the ability to acquire financial capital.

In the current literature, there are diverse views on the impact of financial literacy on entrepreneurial decisions. On the one hand, some studies have shown that financial literacy can enhance individuals' ability to identify market opportunities and assess risks, thereby promoting entrepreneurial activities. On the other hand, other research has pointed out that higher financial literacy may lead individuals to be more cautious, thus inhibiting entrepreneurial behavior. The findings of this paper support the latter view and further reveal the heterogeneous effects of financial literacy across different dimensions and among different groups, thereby enriching the theoretical research in this area.

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Authors Contributions

Ling Zhou was responsible for data analysis and drafting the manuscript. Associate Professor Wei Li was responsible for data collection and revised the manuscript. All authors read and approved the final manuscript. Each author contributed equally to the study.

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Competing Interests

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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