

The Relationship between Financial Attitude and Financial Goal Towards Financial Behaviour: An Empirical Investigation

¹Shafinar Ismail, ¹Fathin Ahmad Faique, ²Mohammed Hariri Bakri and ³Zainab Mohd Zain

¹Faculty of Business and Management, Universiti Teknologi MARA, Melaka, Malaysia

²Faculty of Technology Management and Technopreneurship,
Universiti Teknikal Malaysia, Melaka, Malaysia

³Academy of Language Study, Universiti Teknologi MARA, Melaka, Malaysia

Abstract: Financial behaviour is one of the factors to financial literacy. However, many Malaysians were reported of having a poor financial behaviour which is proved by poor decision making in their financial matters. The improper financial behaviour practice might have a bad impact and one of the effects is bankruptcy. In this current study, we examine the relationship between financial attitude and financial goal towards financial behaviour. Thirty sets of questionnaire were distributed to employees in Melaka using convenience sampling. This study found that financial attitude is significant to financial behaviour.

Key words: Goal setting theory, financial behaviour, financial attitude, practice, poor

INTRODUCTION

Financial literacy is identified as one of the vital skills for everyone in the 21st century. In addition, it is an important element of any economy's effort that will effectively support economic and financial stability, inclusive development and families as well as individual wellbeing. Most financial literacy surveys conducted around the world especially in APEC economies, show that a huge population of the segments have very low financial knowledge of understanding even a basic financial products, plan for the future and always having problem in making sound financial decisions on managing finances (Dulin, 2016). Furthermore, The Organization for Economic Co-operation and Development's report Improving Financial Literacy (OECD, 2005) shows the lack of financial literacy to be widespread, affecting Australia, Japan and Korea, Malaysia as well as the US. This current situation shows that financial literacy is an issue affected not only in developing countries but also in developed countries.

Because financial literacy is the priority issues around the world (Wachira and Kihui, 2012) many countries take the responsibility to implement and revise their National Strategies. Whereby, Financial Literacy is one of the important focuses in improving the national personal financial well-being. National Strategy were implemented by 59 countries worldwide where financial literacy must come along with education. Most of the National

Strategies are targeted at improving Financial Literacy with a view to promote healthier financial behaviours and improve financial well-being.

Financial education is the main source to financial literacy and numbers of studies done by the previous researcher (Adams and Rau, 2011; Collins and O'Rourke, 2010; Hastings *et al.*, 2013; Thaler and Sustein, 2008; Willis, 2009, 2011). Early education in financial literacy can help mitigate this problem and prepare future Malaysians with the know-how they need to manage their resources wisely. However, financial education itself does not translate into a good financial behaviour. In starting the stage to determine the good behaviour, current study will examine the determinants of financial behaviour as past study by One of the Quarter Century Project teams (Xiao *et al.*, 2010) indicated that "financial behaviours are affected by a large number of internal factors such as personality, individual psychology and cognition, family history and environment"(Willis, 2011).

Among the signal of poor financial behaviour are the increasing number of personal bankruptcy and high number of financial problem and debt. At the end of 2013, Malaysia's household debt is valued at 86.8% of the country's GDP which is a substantial increase from 60.4% of GDP in 2008. In 2014, household debt continues to incline until 87.9% household debt to GDP which is among the highest among Asia. It is reflected how addicted Malaysian to debt. Debt burden will be among the contributor to the personal, society and also economic

problem. When the household debt increases, we can predict the bankruptcy number among household. According to MDI, the number of bankruptcy among Malaysian is high due to the car loan defaulters which amounted 30.451 (26.14%), housing loan defaulters 20.529 (17.62%), personal loan defaulters: 18.053 (15.50%), business loan defaulters at 14.431 (12.39%) and credit card debts 4.18% (4.875 cases) (The star Online, 2013).

Thus, the purpose of this study is firstly to examine the factors of financial behaviour. Secondly we want to check the relationship between financial goal and financial behaviour.

By achieving the aforementioned objectives, it is expected that this study will help to advance current knowledge about the factors affecting the financial behaviour and offer practical insights to organization especially financial planners and educators. In addition, This could contribute to improve household's financial decision making which could, in turn, have positive effects not only on households but also on economic and financial stability (OECD, 2009). In addressing this question, the paper has the following structure. In the next section, the literature overview and constructs are discussed, followed by the theoretical model development. After that, the methods used in this study are explained thoroughly. In the last part, results and discussions are presented in details along with the conclusions.

Literature review

Financial attitude and financial behaviour: Study by Hayhoe *et al.* (2000) examined the association of affective attitude toward credit card use in 480 college students to spending habits, financial practices and stress levels. They found that students with positive affective attitude toward credit card use were more likely to purchase goods; such as, clothes, entertainment, travel and food away from home with credit cards compared to students with less positive affective attitude. Therefore, we can formulate a hypothesis in the following way.

- H_1 : Financial attitude have a significance relationship with financial behaviour

Financial goal and financial behaviour: This refers to the psychological motivator factor that contributes to the changes in financial behaviour. Goal planning helps motivate households (Mandell and Klein, 2007). Using a life cycle hypothesis theory, (Hayhoe *et al.*, 2000) examine whether different generation of younger and older have different financial target (Ameriks *et al.*, 2003) used the theory to predict the aggregate saving between them. The result shows that younger households had a greater preference for saving than older households.

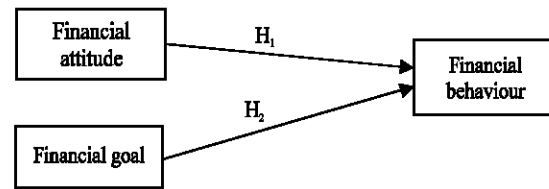


Fig. 1: Constructs derived from literature

The researcher thought this might be the case because the younger generation expected to live longer in retirement and planned on retiring at the same age as the older generation, so they were savvy enough to know they needed to save more to accomplish that goal. A number of researchers Ameriks *et al.* (2003), Van Rooij (2012) Lusardi and Mitchell (2007, 2009) and Porter *et al.* (1975), Potrich *et al.* (2016) and Stawski *et al.* (2007) have considered that the propensity to plan plays a significant role in determining the differences in wealth accumulation. Previous study by Dilwort *et al.* (2000) found that, using a life-cycle hypothesis theory, parents and children shows a high level of difference in their money purpose. They examine the relationship between two different generations using a qualitative data to 75% and their children each. The interview was open-ended and asked the respondents about their financial goal. Data collected and arranged according to theme and sub-theme. The results show that parents perceived a long term financial goal while children more on short term goal such as buying a branded shirts. The study added as money attitude and beliefs, financial goals and the perceived purpose of money could serve as psychological motivators for later financial management. Others explained that organization can use the goal setting theory to enhance motivation and performance among workers (DuBrin, 2012; Newstrom, 2001). Therefore, we can formulate a hypothesis in a following way:

- H_2 : Financial goal have a significance relationship with financial behaviour

Following from the discussion in the previous section, the following theoretical model is drawn as depicted in Fig. 1. The theoretical framework is derived from the Goal Setting Theory by Locke and Latham (1990). The theory highlights the important relationship between goals and performance. The basic idea behind goal setting theory is that humans translate motivational forces into observable behaviour through the process of setting and pursuing goals. Past study adopted the theory of goal-setting theory in the workplace situation. Organization that set the specific goal to the members

such as increase in salary or promotion can help the members to improve their work performance (Locke and Latham, 2002) and only few studies on personal financial goal. The foregoing of literature review in this study were forms as a basis for developing a theoretical framework.

MATERIALS AND METHODS

The respondents were Malaysian workers in Melaka from all sectors (Public, Private, others) ages between 18 and 60 years old. Convenience sampling was used for this study. Thirty questionnaires were distributed to thirty respondents to validate the questionnaire. All instruments were adapted from previous study which are; financial behaviour questions, consist of 11 items adapted from (Ahmad *et al.*, 2010), financial attitude questions, consist of 8 items adapted from and financial goal questions, consist of 12 items adapted from (Dilworth *et al.*, 2000). Using a 10 likert scale point from one strongly disagree to 10 strongly agree.

RESULTS AND DISCUSSION

Frequency statistics: A total of 30 respondents cooperated by returning the questionnaires that resulting in 100% rates of return. Table 1 summarizes the demographic information. The sample was diverse in several aspects. Approximately, 63.3% of the samples (19) were male and 36.7% (11) were female. Twenty-nine subjects were Malay and only one subject was Chinese. Meanwhile, the highest age range was between 31 and 40 year old (46.7%) and the lowest was between 41-50 year old (13.3%). Furthermore, in terms of education level, 3% (1) of the respondents had others which is we defined as having education lower than Sijil Pelajaran Malaysia (SPM). About 30% (9) of respondents were SPM holder. 27% (8) of them were Diploma holder and 14% (4) respondents with Bachelor's Degree holder, 20% (6) were Master's Degree Holder and 7% (2) respondents were Doctorate qualification. The table also shows that 4% (1) of the samples earn <RM1000 of income per month, RM1001-2000 by 20% of samples (6), 30% of them earn RM2001-3000, followed by 20% (6) of the samples earn RM3001-4000 per month and 27% of the sample (8) with income received more than RM4000 monthly. On the other hand 0.84% (25) of the samples work in Public sector followed by 10% (3) work in private sector and only (7%) 2 people were in other sector which is we assume as self-employed person. In terms of the marital status 0.40% (12) of the total samples were single and 60% (18) married. The majority (43%) (13) of the samples have 1-3 dependency, 30% (9) have no dependency while only 27% (7) have more than 3 dependency.

Table 1: Sample characteristics

Demographic factor/categories	Percentage
Gender	
Male	63.3
Female	36.7
Race	
Malay	96.7
Chinese	3.3
Age (years)	
Below 21	0.0
21-30	40.0
31-40	46.7
41-50	13.3
Education level	
SPM	30.0
Certificate	0.0
Diploma	26.7
Bachelor degree	13.3
Master degree	20.0
Doctorate	6.7
Others	3.3
Income per month (RM)	
<1000	3.3
1001-2000	20.0
2001-3000	30.0
3001-4000	20.0
>4001	26.7
Working sector	
Public	10.0
Private	83.3
Others	6.7
Marital status	
Single	40.0
Married	60.0
Divorced	0.0
Dependency	
None	30.0
1-3	43.3
>3	26.7

Descriptive result: Table 2 presents the descriptive statistics. Table 2 shows that overall in terms of financial behaviour, the question on "record every expenses" showed the highest mean that is 4.80 while the lowest mean that is 2.87 on 'having monthly financial planning'. Therefore, recording expenses has the most influence in determining financial behaviour. But all items in financial behaviour agreed by all respondents.

Next, the highest mean is 'uncertain about where money were spent' at 5.63 whilst the lowest mean is 'feel in control of financial situation' at 3.0, respectively for financial attitude variable. The respondent's neutrally felt that they are very certain where their money were spent and agreed that they felt in control of their financial situation. Fifth, for 'financial goal' variable, it can be seen that the highest mean is "my financial goal is to settle credit card debt" at 5.56. Meanwhile, the lowest mean is 2.10 for a question on 'My financial goal is to provide money stability for my family in the future. However, the mean for all 12 questions was answered at rating 2 which is nearly agreed.

Table 2: Descriptive result

Variables/items	Mean	SD
Financial behaviour		
Monthly financial planning	2.87	2.54
Observed financial planning strictly	3.63	2.22
Review spending	3.60	2.22
Record every expenses	4.80	2.90
Know the value of entire assets owned	3.66	2.64
Save every month	3.13	2.67
Always review financial position	3.56	2.37
Investment is important	3.63	2.59
Cautious with spending	3.66	2.03
Have emergency savings	3.33	2.56
Preparedness to face any financial problem	3.40	2.51
Financial attitude		
In control of financial situation	3.03	2.12
Capable of using future income to achieve financial goal	3.90	2.50
Uncertain about where money were spent	5.63	3.10
Afraid of taking loan	3.43	2.19
Prioritize monthly income to saving	3.33	2.44
Enjoy talking to peers about money related issues (i.e., taxes)	4.30	2.81
Enjoy talking to family about money related issues (i.e., taxes)	5.10	2.97
Life insurance is important	3.70	2.91
Financial goal		
To provide necessities	2.30	2.10
To provide money stability for family in the future	2.10	1.84
To provide money stability for myself in the future	2.60	2.45
To buy any material items I desire	3.20	2.53
To go for a vacation	3.23	2.44
To buy anything for family	3.00	2.40
To provide saving for the purpose of emergency	2.60	1.97
To provide money for retirement	2.76	2.43
To do investment	3.06	2.13
To settle credit card debt	5.56	3.55
To settle all loan	3.50	2.67
To help people in need/charity purpose	2.93	2.07
Financial behaviour	11.00	0.932
Financial attitude	8.00	0.698
Financial goal	12.00	0.868

Table 3: Reliability results

Variables	No. of items	Cronbach's alpha
Financial behaviour	11	0.932
Financial attitude	8	0.698
Financial goal	12	0.868

Reliability analysis: The Cronbach's alpha for Financial behaviour (0.932), financial knowledge (0.629), financial attitude (0.698) and financial goal (0.868) are considered as good. Thus, coefficient was obtained from all questions in likert scale are reliable. Therefore, we confirmed the framework which consist four independent variables and one dependent variable. Independent variables consist of financial knowledge (3 items), financial attitude (8items) and financial goal (12 items).

Regression analysis: Table 3 and 4 demonstrates the regression results. Financial attitude is significantly associated with financial behaviour ($t = 3.50$, $p = 0.002$). Hence, H_1 is supported. Financial goal, however

Table 4: Regression result

Hypothesis	β	t-value	p-value	Supported?
H_1	0.81	3.50	0.002	Yes
H_2	-0.98	-0.78	0.668	No

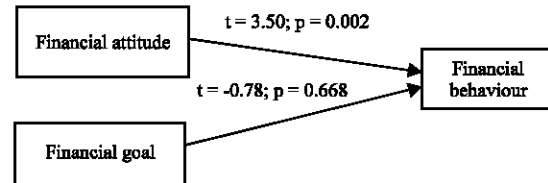


Fig. 2: Hypothesis testing result

suggested to have no significance relationship with financial behaviour ($t = -0.78$, $p = 0.668$). Hence, H_2 is rejected (Fig. 2).

CONCLUSION

The aim of the study is to identify the factors affecting financial behaviour among Malaysian employees. Result of this study suggests that positive financial attitude clearly affect the financial behaviour positively while financial goal found to have no relationship with financial behaviour. This study advance the current knowledge as the findings were contradicted with the previous study by Locke and Latham (2002) and Im *et al.* (2010).

The contributions in this study are as follows; first, this study applied a goal setting theory which to underpin the theoretical framework. Using this theory, explained that individuals who have goals for their future supposed to have a positive behaviour to achieve goal. Secondly, this study extends from the study by Dilworth *et al.* (2000) where results from the interview of financial goal were then translated into a set of questionnaire. Since their study was on financial goal of adults and young adults, we combine the interview result and tested by using the Goal setting theory. However, different result found in our study which is financial goal have no relationship with the financial behaviour.

The limitation of our study was the sample size might be too small which is only focused on Melaka respondents therefore, the findings cannot be generalised. Also past studies on financial goal used interview as a method to examine the financial goal of the parents and students.

RECOMMENDATIONS

Future research recommended to increase the number of respondents so that the result will be more accurate. More studies needed to investigate the relationship using more sophisticated method.

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