

**FACTORS AFFECTING PERSONAL FINANCIAL MANAGEMENT
BEHAVIORS AMONG YOUTH IN MELAKA**

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DECLARATION OF ORIGINAL WORK

“I admit that this report is the result of my own, except certain explanations and passages where every of it is cited with sources clearly.”

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DEDICATION

I would like to dedicate the appreciation to my family members who gave me mentally and financially support, respected supervisor, Pn. Hartini Azman and both panels, Dr. Nor Azah Abdul Aziz and Dr. Atirah Binti Sufian who guided me throughout the research. Also not to forget my fellow friends from other universities and course mates that assisted me throughout my research.

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Abstract

Nowadays, global economic growth has brought the impact of change on the social financial system. There are one of the emerging parts which is the personal financial management behaviors especially among the youth. Society must understand the factors which may affecting financial management behaviors toward youth. Hence, this research aimed to study the factors which affecting personal financial management behaviors among youth in Melaka. There are three research objectives which are investigate the factors that may affect individual engagement in personal financial management behaviors among the youth, the relationship between factors and personal financial management behavior and to examine the most significant factors toward personal financial management behaviors among youth in Melaka. In order to study this topic, the researcher has selected 384 respondents as sample framework with google form questionnaire distributed online and offline. For finding analysis, the researcher was searched a lot of journal article from primary data and secondary data and also used descriptive analysis, pearson's correlation coefficient analysis, multiple regression analysis and hypothesis testing by SPSS software to analyse the data. The finding depicts that there is significant relationship between financial attitude, subjective norm, perceived behavioral control and financial literacy towards the personal financial management behaviours. The researcher recommends the education institution provided more program about financial in term of increase the knowledge among the youth. Besides, the future researcher could cover more factors that will affecting the personal financial management behaviours.

Keywords: Financial Attitude, Subjective Norm, Perceived Behavioural Control, Financial Literacy, Personal Financial Management Behavior, Youth

Abstrak

Pada masa kini, perkembangan ekonomi telah membawa kesan perubahan terhadap sistem kewangan sosial. Terdapat satu bahagian yang muncul iaitu tingkah laku pengurusan kewangan peribadi terutama di kalangan belia Masyarakat perlu memahami faktor-faktor yang mungkin mempengaruhi tingkah laku pengurusan kewangan terhadap belia. Oleh itu, kajian ini bertujuan mengkaji faktor-faktor yang mempengaruhi tingkah laku pengurusan kewangan individu di kalangan belia di Melaka. Terdapat tiga objektif penyelidikan iaitu menyiasat faktor-faktor yang boleh mempengaruhi seorang individu dalam tingkah laku pengurusan kewangan individu di kalangan belia, mengenalpasti hubungan antara faktor dan tingkah laku pengurusan kewangan peribadi di kalangan belia dan mengkaji faktor-faktor yang paling penting yang boleh mempengaruhi seorang individu secara peribadi tingkah laku pengurusan kewangan di kalangan belia di Melaka. Untuk mengkaji topik ini, penyelidik telah memilih 384 responden sebagai kerangka sampel dengan soal selidik borang google diedarkan dalam talian dan di luar talian. Untuk menganalisis keputusan, penyelidik telah mencari banyak artikel jurnal dari data primer dan data sekunder dan juga menggunakan analisis deskriptif, analisis koefisien korelasi pearson, analisis regresi berganda dan ujian hipotesis oleh perisian SPSS untuk menganalisis data. Hasil kajian telah menunjukkan bahawa terdapat hubungan yang signifikan antara sikap kewangan, norma subjektif, kawalan tingkah laku dan literasi kewangan terhadap tingkah laku pengurusan kewangan peribadi. Penyelidik mengesyorkan institusi pendidikan menyediakan lebih banyak program tentang kewangan dari segi meningkatkan pengetahuan di kalangan belia. Selain itu, penyelidik masa depan boleh menampung lebih banyak faktor yang dapat mempengaruhi tingkah laku pengurusan kewangan peribadi.

Kata kunci: Sikap Kewangan, Norma Subjektif, Kawalan Tingkah Laku, Literasi Kewangan, Tingkah Laku Pengurusan Kewangan Peribadi, Belia

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LIST OF ABBREVIATION

TPB =Theory of Planned Behaviour

TRA = Theory of Reasoned Action

ANOVA =Analysis of Variance

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Recently, financial management has become more and more important in one's life, especially among young people. Schools or universities should also incorporate personal finance into their curricula. (Zsoter,2017). In addition, the global financial crisis in 2008 also had a lot of negative impacts on the world economy and society, and also showed that people need financial knowledge, skills and thinking changes (IRBD, OECD, DFID & CGAP, 2009). However, the way to use the products and services related with financing by some of the complexities and technologies also reflects the social and financial systems brought about by today's global economic growth. For example, loan payment and financial service products are everywhere. Modern economics recognizes that understanding social members' attitudes towards finance and the characteristics of various social groups with the same views and behaviors can effectively predict financial and economic processes (Nemeth & Zsoter, 2017). Without effective financial behaviour, people can easily get into a bad economic situation. Financial behaviour may be related to personal financial management. Young people face a serious dilemma and must deal with complex financial decisions at every stage of the life cycle (Sundarasan & Rahman, 2017). Personal finance is one of the applications of personal finance concepts, including financial planning, management and control activities. Planned activities include planned activities for the distribution of income. Management is an activity that effectively manages finances, while control is an activity that assesses whether financial management is the same as the plan or budget. By following the

management mode of one's capital inflow and outflow, one can see the management attitude towards loans and investments in healthy financial behaviours (Layli, 2013). In addition, individual financial behaviours and habits are different in space and time, and the development and change of these factors are influenced by many factors (Nemeth et al., 2016). It also proves that it is important to measure the financial management behaviour of many different domains, because each domain has an important role (Xiao & Dew, 2011).

At present, the financial management field pays more and more attention to young people's consumption behaviour. Financial management practices can be made by the people who start to do the complex financial decisions (Henry, Weber & Yarbran, 2001). Financial management usually involves the activities like how to manage cash and credit, financial planning in for future and also investment (Godwin, 1994). This segmentation practice enables financial institutions to provide financial products that fit each market segment and also predicts customer behaviour such as the willingness to repay the loan. Besides that, financial behaviour may be affected by financial literacy. Financial literacy can be interpreted as the way to use financial knowledge to acquiring wealth. Individual who had excellent financial literacy can make them having a good financial behavior to manage their payment of bills or managing their account or investment (Lusardi, Olivia&Curto, 2010). Financial literacy has a significant affect on financial behavior (Danes & Haberman, 2007; Susanti, 2013).

On the other hand, Remund (2010) reviewed various studies since 2000 and believed that it was a huge challenge to carry out financial literacy research because there was no good research at present. Financial literacy helps individuals improve their understanding of financial issues so they can process financial information and make imperfect decisions about their finances. Financial knowledge is directly related to one's happiness. Earlier studies have pointed out that the people who do not having financial literacy will cause them faced the problems in managing their personal finance such as saving, borrowing, investing and retirement planning.

1.2 Problem Statement

In recent years, the practice of youth financial planning has been widely concerned by government agencies, community organizations, universities and other organizations. In Malaysia, despite the efforts made by the government and the private sector, there is evidence that young people lack financial knowledge (Jay, 2017). Young people are brought up in a debt culture driven by an expensive lifestyle and easy credit (Dugas, 2001). Sabri et al.(2010) pointed out that the financial literacy level of Malaysian college students is also very low, and their financial literacy is related to their race, childhood, private and public institutions. According to Tang (2017), they pointed out that Malaysians are do not have ability in making responsible financial decisions regarding their finances. According to a 2015 report, 76 per cent of Malaysians were unable to raise at least rm1,000 in an emergency (Financial Stability and Payment Systems Report, 2015). Most young people rely on high-cost borrowing, personal loans and credit card borrowing (Asian Institute of Finance, 2015). Although the life expectancy of Malaysians is increasing, only 40% of them are economically ready to retire (Financial Stability and Payment Systems Report, 2015). In addition, due to poor financial management, Malaysians are prone to financial fraud and fraudulent behaviors (Tang, 2017).

However, young people are often never fully in charge of their personal finances at the beginning of their college career (Borden et al., 2008). It has also been noted that the nowadays younger generation is lack of performs in basic financial skills especially in planning in budget or saving for future (Birari & Patil, 2014). They may also be do not ready in effectively manage the psychological costs associated with high debt. This can be increased stress levels and reduced mental health (Norvilitis & Santa, 2002). Lack of financial literacy has stimulated the development and implementation of many educational programmes aimed at improving financial literacy.

Personal financial knowledge insufficient symptoms include personal debt levels rose, excessive use of credit cards, personal loans and overly optimistic housing loan obligation, irresponsible consumption overruns and stupid promises to get rich quickly, do not conform to the requirements of the stability of unwise to

high-risk investment capital and access to inappropriate vehicle leasing contract. On a more general level, low-income people tend to make unwise promises about cell phone contracts and now pay for purchases, long-term sports centre contracts and expensive meal plans.

The shrinking of public and private welfare systems, the change of population structure and the increasing complexity and expansion of financial services make developed and developing countries worry about the financial knowledge level of their citizens, especially young people (OECD, 2015). By allowing customized financial contracts and easier access to credit, more responsibility is placed on the development, lending, saving, investment and asset development of the household financial system (Lusardi & Mitchell, 2014).

Besides that, the problem in development of youth economic has become important policy makers. The first is that young people face different economic choices than they did in the past. Financial systems, services and products are becoming more complex. The second reason is that young people face a lot of risks in the future is because longer life expectancy, lower economic prosperity and will faced employment problems (Atkinson & Messy, 2012). Once in college, students will face many problem related with financial such as payment on bills, planning budget and apply the credit cards in their lives. Students' ability to cope with these challenges depends on their own financial knowledge and behavior (Lyons et al., 2006).

Nowadays, young people seem to be very aware of the risks of accidents and how to secure themselves. However, this finding does not necessarily mean that young people are not care on financing. It can be consider with low marginal net income and needs to be thinking in actual personal finance methods (Oehler & Wendt, 2017). In addition, it is consistent with the general level of social security and specific pension systems in countries. Surprisingly, the literacy rates of young people who have been implemented and applied in their portfolio structures appear to be higher than their reactions to the products they need.

Therefore, it is necessary to understand teenagers' cognition of financial management and find out other factors influencing their personal financial management behavior. This study will help to identify the determinants of the factors affecting the individual financial behavior of Melaka adolescents. This study will also explore the most important factors affecting personal finance behavior.

1.3 Research Questions

In this part will have 2 types of research questions namely in general research question and also in specific research questions;

General research question:

- i) What are the factors that may affect individual engagement in personal financial management behaviors among youth in Melaka?

- ii) What are the most significant factors that may affect individual engagement in personal financial management behaviors among youth in Melaka?

Specific research questions:

- i) Is there any relationship between the financial literacy and personal financial management behaviors among youth in Melaka?

- ii) Is there any relationship between the financial attitudes and personal financial management behaviors among youth in Melaka?

- iii) Is there any relationship between the subjective norm and personal financial management behaviors among youth in Melaka?

- iv) Is there any relationship between the perceived behavioural control and personal financial management behaviors among youth in Melaka?

1.4 Research Objectives

Objective is formed following with the research question. It is splits into general and specific and is interrelated between question and objective of research.

General research objective:

- i) To investigate the factors that may affect individual engagement in personal financial management behaviors among youth in Melaka.
- ii) To examine the most significant factors that may affect individual engagement in personal financial management behaviors among youth in Melaka.

Specific research objective:

- i) To identify the relationship between the financial literacy and personal financial management behaviors among youth in Melaka.
- ii) To determine the relationship between the financial attitudes and personal financial management behaviors among youth in Melaka.
- iii) To analyze the relationship between the subjective norm and personal financial management behaviors among youth in Melaka.
- iv) To analyze the relationship between the perceived behavioural control and personal financial management behaviors among youth in Melaka.

1.5 Research Scope

The research that is being discussed here is about the factors influence the behaviors of personal financial management among youth in Melaka. The population for the study was the youth in Melaka and who are 15 years old till 35 years old will be categories as respondent.

While collecting information related to this article, the author used 2 types of data which are primary data by collecting questionnaires from the targeted sample and secondary data by studying the journal articles, database, reports and news articles.

1.6 Justifications of the study

After finished learning on this research, audience such as respondents able to gain excess with important of behaviors on personal financial management and predict their financial situation in advance.

In this research, it can be beneficial to the next researchers that are going to do research related to personal financial management behaviors as a basis of reference. They are able to gain more reference on related title. They may able to gain a different view from the targeted respondent. They can be know about the gap in this research and examine what kind of research can go in deep as a new research. It is critical to those University or school who are interested to creating the course of financial management. It will be useful to them as a reference on the advantages and disadvantages before adding this course into subject.

Moreover, this study could be as useful information for financial institutes who are interested and consider to developing young generation financial management in a context of emerging economies in Malaysia.

1.7 Limitation

There are some limitations in this study, which limit researchers' access to complete and important information. One limitation that was found when the study was carried out was the time limit. Data collection is a time-consuming risk. It took us about a month to collect all the responses from the target respondents to a large sample size and geographic coverage. In addition, the accuracy of the results seems to be another limitation of this study. Due to time constraints, the study did not cover every state in Malaysia. In this study, these respondents were considered to have provided honest and accurate answers.

1.8 Summary

In the introduction, it mainly discusses the background of the current research, the raising of problems, the research problems found and the research objectives of this research. The legitimacy of the research is mentioned in this chapter. The research scope involves the survey objects of the sample objects and the meanings of some important key terms are also clearly defined.

Since this study is aimed to indicate factors of financial literacy, financial attitudes, perceived behavioural control and subjective norm toward personal financial management behaviors among youth in Melaka, I was trying using some of primary data and secondary data about financial management behaviors and shows the details in next section

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will studies the empirical research on identify which factors will impact youth financial management behaviour in Melaka. In addition, the purpose of the literature review is to discuss the relevant terms and variables used in this study and to find out the legitimacy of the research theory based on past researchers' comments. In this research, the literature review will also identify and articulate the relationship between the literature and the field of research.

2.2 Youth

Nowadays, young people do no have responsibility for their personal finances when in the study period (Cunningham 2000; Nellie, 2002). Young generation is easily influence by aggressive marketing strategies by financial institutions. It can conclude that is because they are lack of experience. Young people may not be ready to effectively manage the problem in psychological costs that related with high debt, such as increased stress and declining mental health (Norvilitis & Maria 2002; Roberts and Jones (2001).

In addition, according to National Youth Development Policy (1997), there are stated age of the youth is between the ages of 15 till 40. But the policy also had

pointed out program about youth development programs must be focused on the youth aged 18-35.

2.3 Personal Financial Management Behavior

According to Kasmir (2010), financial behaviour can be interpreted as how a person manages his finances, such as the planning, management and control of funds. Financial management behavior is the core concepts of the financial discipline. This concept has many explanations. For example, Horne & Wachowicz (2002) proposed that financial management behaviour was used to determine, collect, allocate and utilize the overall purpose of financial resources. In addition, Joo (2008) also pointed out that effective financial management behavior is allow a person always actively manage their financial situation in order to avoid serious long-term effect. Therefore, financial management mainly focuses on effective capital management.

Personal finance failure will not only bring serious long-term consequences to individuals, but also bring serious consequences to enterprises and society (Ismail et al., 2011). Therefore, in recent years, more and more researchers began to pay attention to personal finance behavior. Deacon and Firebaugh(1988) defined personal financial management as a behaviors in the process of planning, implement and evaluate their financing situation like cash, credit or investment and so on.

The way a person behaves can greatly affect his financial situation. Therefore, it is necessary to obtain evidence of behavioural dimension in financial literacy measurement standards (OECD, 2013). In addition, Huston (2012) believes that people who exhibit low-cost behaviors have more wealth. Agarwalla et al. (2013) found that most Indian youth employment shows the ideal financial behavior, namely self-discipline, in dealing with household finances and personal funds. One is more likely to pay bills in time, evaluate the payment ability of products, set financial goals, carefully evaluate financial products and rely on savings or assets rather than borrowing in times of crisis.

2.4 Independent Variable

2.4.1 Financial Attitude

Financial attitude is the tendency of individuals to act in a certain way because they hold certain economic and non-economic beliefs about the results of certain behaviors (Ajzen, 1991). Attitudes are playing an important role as a component in the financial literacy (OECD, 2013). In addition, Individuals who having a good financial attitudes were more care about the plan (Lusardi & Mitchell, 2008, 2011; Van Rooij et al., 2009; Remund, 2010; Atkinson and Clutter, 2012; Agarwalla et al., 2013).

Based on empirical evidence to date, an analysis of the concept of financial attitude is very primitive for understanding how individuals spend their money. It can be used to understand phenomena considered irrational, such as compulsive shopping, depression or gaming addiction. Therefore, money not only affects or damages the economy, but also affects social and individual behaviour. In addition, Joo & Grable (2004) found that people with strong cognition and positive financial attitude are more likely to succeed in financial management.

Some research on attitude shows that these three components are formed together, thus ensuring the consistent evaluation and stance of individuals towards attitude objects. An important result of the study is that if one attitude component changes, the other two dimensions also change. Therefore, in order to combat unnecessary financial behaviour, it is important to explore the components of financial attitudes.