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FINANCIAL BEHAVIOUR OF YOUNG ADULTS: THE INFLUENCE OF SOCIOECONOMIC STATUS, FINANCIAL LITERACY AND PARENTAL FINANCIAL SOCIALIZATION

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Abstract

This study aimed to analyze the factor influencing financial behavior among young working adults at Universiti Teknologi Mara (UiTM) Shah Alam, Selangor. The purpose was to determine whether these young adults exhibit good financial behavior and to identify which factors; socioeconomic status (academic qualification, income, number of dependents), financial literacy and parental financial socializations significantly impact their financial behavior. The sample comprised 210 respondents including employees of the institution. Data was collected through a self-administrated online questionnaire. The dependent variable, financial behavior was categorized into three levels: low, moderate and high. Descriptive statistics and Ordinal Logistic Regression were employed to assess the factors affecting financial behavior. The finding indicates that most young working adults do practice good financial behavior. Additionally, the results reveal that academic qualification, income and number of dependents do not significantly influence financial behavior. In contrast, financial literacy and parental financial socialization were identified as significant factors of financial behavior among young working adults.

Keywords: Financial behavior, young adults, financial literacy, parental financial socialization, socioeconomic status

1. Introduction

Financial stability plays an important role in everyone's life as it represents the state of financial health that results from a good financial behaviour. When a person is financially stable, they can consistently meet their financial obligation consistently without experiencing stress. Financial behavior is one of the key contributors to having better financial stability and generally people with a high degree of financial behavior tend to be in a better financial position (Rahman et al., 2021). Financial behavior can be defined as any human behavior related to managing money (Xiao, 2008). Financial behavior also can be seen from how an individual manages its financial resources, including cash, debt, savings and other expenses (Hasibuan et al, 2018). However, millennials are increasing experiencing financial stress with many of them living beyond their means, being trapped in emotional spending and being on the edge of financial instability (Azmi and Madden, 2015).

Everyone manages their money differently and effective money management requires effort, time and consistency. Controlling spending habits, especially for young adults who may struggle with shopping impulses can be challenging. Young adults may either handle their financial behavior successfully or face serious issues such as bankruptcy, particularly as they manage money independently for the first time. According to Mohamad (2020), financial literacy is alarmingly low among young adults in Malaysia. The article notes that between 2015 and 2019, approximately 84,805 Malaysians were declared bankrupt. The insolvency department stated that, of these, 26% were young adults under the age of 34. Additionally, 47% of Malaysian youth have high credit card debt, largely due to difficulties in managing instalment purchases, personal loans and credit card debt.

Financial literacy refers to the ability to understand and apply various financial concepts and techniques, such as personal financial management, budgeting, and investing. It is crucial for an individual to manage their finances because it provides skill and knowledge to make financial decisions to maintain financial stability to achieve good financial behaviors. According to Herawati et al (2018) financial literacy and socioeconomic status has a significant impact on respondents' financial behavior. In the study by de Bassa Scheresberg (2013) found that individuals with lower incomes or less education tend to have particularly low financial literacy. However, even a high level of education does not necessarily guarantee financial literacy. While individuals with college degrees generally demonstrate better financial management, financial literacy remains relatively poor even among those with a high degree of education.

According to Danes (1994) as referenced in Jung (2021), financial socialization is the process through which individuals acquire values, knowledge, norms, attitudes, and behaviors that promote financial well-being and viability. Financial socialization agents include family, parents, education, peers, and media. Among these, parental financial socialization is particularly influential in shaping children's financial behavior. Shim et al. (2010) suggest that parents and family play a crucial role in children's acquisition of financial knowledge and the development of their future financial behaviors. Parents are often the primary role models, and the first social unit children encounter Jung (2021), influencing their financial attitudes through daily routines related to managing, spending, saving, and investing. That behaviors can be formed by observing family members' daily routines in relation to financial tasks such as managing, spending, saving and investing, as well as through purposeful forms of socialization in the family such as giving advice, opening accounts, and participating in the management of household income (Chowa and Despard, 2014).

Socioeconomic status refers to the social standing or class of an individual or group which can be measured according to the combination of family background, education, income or number of dependents. According to Herawati et al. (2018) a family's social condition plays a role in the students' financial behavior. Different levels of socioeconomic status will affect the emergence of differences in perception towards physical objects or behavioral objects. This resulting in various attitude based on levels of socioeconomic. De Bassa Scheresberg (2013) also found that income and education are linked to financial outcomes.

The potential for bankruptcy poses significant concerns for young adults' futures. Young adults are at critical stage where the begin to make significant financial decision independently, without proper financial planning, young adults who face unforeseen expenses are at increased risk of financial stability without financial planning and practicing a good financial behavior. By targeting young adults in financial behavior studies, this study can identify factors influencing financial behavior. Thus, addressing financial behavior is crucial to prevent early financial difficulties and ensuring better financial management practices among young adults. Hence, the following hypotheses were developed:

H_1: There is a significant influence between academic qualification and financial behaviour.

H_2: There is a significant influence between income and financial behaviour.

H_3: There is a significant influence between number of dependent and financial behaviour.

H_4: There is a significant influence between financial literacy and financial behaviour.

H_5: There is a significant influence between parental financial socialization and financial behaviour.

2. Methodology

2.1. Research Design

This cross-sectional study aims to provide a comprehensive understanding of the factors influencing financial behavior among young adults. This study used quantitative analysis to assess the relationships between academic qualification, income, number of dependents, financial literacy and parental financial socialization as predictors of financial behavior. This study involved a sample of 210 young adults currently employed at a tertiary institution in Selangor. The target population consisted of young working adults in the age range of 18 to 40 years. Figure 1 illustrates the research framework of this study where the independent variables are academic qualification, income, number of dependents, financial literacy and parental financial socialization are analyzed as factors contributing to the financial behavior.

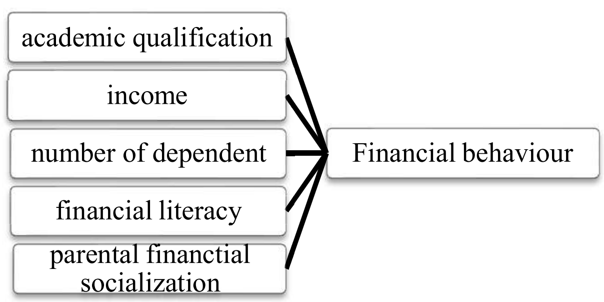

Figure 1: Research framework of this study

2.2. Research Instrument

Data was collected using a structured questionnaire administered through a survey. The questionnaire is divided into three sections: Section A contains questions on demographic information of respondents which include respondents' age, gender and marital status. This section also includes questions on demographic factors related to financial behavior which are academic qualification, income and number of dependents. These factors were assessed using multiple-choice questions. Section B consists of factors of financial behavior which are financial literacy and parental financial socialization. For factor financial literacy, questions were expressed as multiple-choice items. Responses were recorded with a score of 1 for each correct answer and a score of 0 for incorrect answers. The accumulated scores were calculated to determine the extent to which financial literacy affects financial behavior among young adults. For parental financial socialization, the questions were measured using a 5-points Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Section C consists of items related to financial behavior. This section focuses on cash management, credit card management and saving behavior. Respondents rated their financial behavior from 1 (strongly disagree) to 5 (strongly agree). Each response was scored based on the option selected for each question. The questionnaires items related to financial literacy were adapted from Stella et al. (2020) while those on parental financial socialization were from LeBaron-Black et al. (2021) and financial behavior were adapted from Hogarth et al., (2003). Table 1 summarizes the scores and level of financial behavior.

Table 1: Levels of Financial Behavior Based on Scores

Levels of financial behavior	Scores
Low	Below than 30%
Moderate	30% - 75%
High	More than 75%

2.3. Measurement Reliability

To ensure the collected data is reliable and can produce precise and constant result, a reliability test was conducted. The degree of reliability was determined by using Cronbach's alpha where a value more than 0.7 indicates a higher level of internal consistency reliability Sekaran and Bougie (2010).

2.4. Data Analysis

Descriptive statistics were employed to summaries the information about the respondent and to explore whether the young adult practices good financial behavior in terms of saving, cash and credit card management. Next, ordinal logistic regression was employed to explore the relationship between independent variables to determine the influence of these factors on students' dependent variable that has three categories (low, moderate or high financial behavior). The Wald test was used to assess the significance of individual coefficients or factors within the model. The significance of the Wald statistic can be seen from the p-value for each variable which must be less than alpha equal to 0.05 to indicate the importance of the predictor variables in the model. High values of the Wald statistic also will show that the corresponding predictor variable is significant. If the null hypothesis is rejected, the independent variables will be significant to determine that the independent variables influence the financial behavior.

3. Results and Discussions

3.1. Reliability Result

The results of reliability test, as shown in Table 2, indicate that all variables are highly reliable and dependable for further analysis as the Cronbach's Alpha values are greater than 0.7.

Table 2: Reliability Results for Variables

Variable	Cronbach's Alpha
Financial behaviour	0.896
Parental Financial Socialization	0.909

3.2. Demographic Profile

The descriptive statistics for 210 respondents are shown in Table 3. The data reveals that there are 57.7% of the respondents were female and 44.3% indicating a higher proportion of female participants compared to males. About 54.3% of respondents under 25 years, 17.1% were aged 26 – 30 years, 16.7% were aged 36 – 40 years. It also can be observed that, majority of the respondents had a degree with 43.8%. Regarding income, 20.5% of the respondents earned less than RM1000, 34.8% earned income between RM1001 and RM2500, 22.4% earned income between RM2501 and RM3500, 11% earned income between RM3501 and RM5000 and 11.4% earned more than RM5000. For the number of dependents, 64.3% of respondents had 3-6 dependents, 23.3% had fewer than 3 dependents and 12.4% had more than 6 dependents.

Table 3: Summary of Demographic Information of students

Variable	Category	Frequency	Percentage
Gender	Male	93	44.3
	Female	117	55.7
Semester	Below 25	114	54.3
	26 – 30	36	17.1
	31 – 35	35	16.7
	36 – 40	25	11.9
Academic Qualification	PMR	2	1.0
	SPM	27	12.9
	Diploma	66	31.4
	Bachelor's degree	92	43.8
	Master and PhD	23	11.0
Total income	Less than RM1000	43	20.5
	RM1001 – RM2500	73	34.8
	RM2501 – RM 3500	47	22.4
	RM3501 – RM 5000	23	11.0
	RM5000 and above	24	11.4
Number of Dependents	Less than 3	49	23.3
	3 – 6	135	64.3
	More than 6	26	12.4

Table 4 shows the descriptive statistics of mean score for factors financial literacy and parental financial socialization among the 210 respondents. For the variable Financial Literacy, scores ranged from a minimum of 0 to a maximum of 6 indicating a spectrum of knowledge levels from no financial knowledge to high financial knowledge. The mean score of Financial Literacy is 3.65 suggesting, most of the respondents do have knowledge about Financial Literacy such as respondents can handle financial situations that require them to do so more effectively. According to Stella et al. (2020), a score between 3 and 4 indicates good financial literacy. For the Parental Financial Socialization, scores ranged from a minimum of 8 to a maximum of 40. The average score was 29.99, indicating a good Parental Financial Socialization among respondent as indicated by LeBaron-Black et al. (2021), scores between 25 and 30 indicate good parental financial socialization.

Table 4: Descriptive Statistics of Factors of Financial behavior

Variable	Mean Score	Variable
Financial literacy	3.65	Financial literacy
Parental Financial Socialization	29.99	Parental Financial Socialization

From Figure 2, it is observed that more than half of the total respondents from the tertiary institution fall into the high financial behavior group with 54.3%. The remaining respondents are nearly equally divided between the low and moderate financial behaviors groups, with 23.3% in the low group and 22.4% in the moderate group. This result shows that most young working adults at the tertiary institution demonstrate good financial behaviors and possess substantial knowledge on finances. However, the rest of them were divided into low and moderate financial behaviors categories. The financial behavior among young working adults is concerning with 23.3% who have poor financial behavior in their daily life.

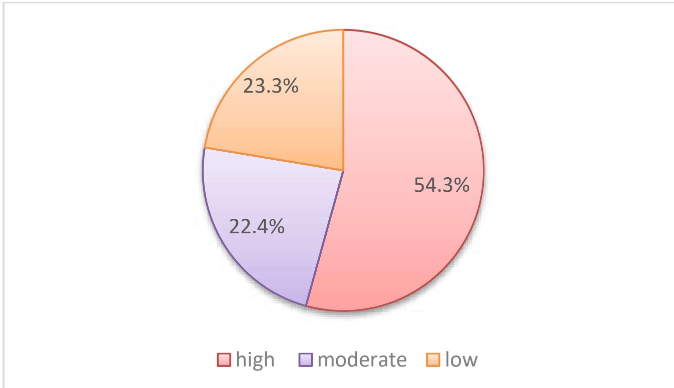

Figure 2: Financial Behavior of Respondents

3.3. Factors Influencing Financial Behavior

Table 5 presents the results of ordinal logistic regression model. Financial literacy and parental financial socialization were statistically significant at the 5% significant level suggesting that these factors significantly influence the financial behavior of young working adults. For each one unit increase in Financial Literacy, there is a predicted increase of 0.325 in the log odds of individual being at a higher level of Financial Behavior. This indicates that individuals with higher Financial Literacy are more likely to achieve better financial behavior. Thus, when individuals get more knowledge about financial concepts, they will be able to make better financial decisions. This finding aligns with Herawati et al. (2018) who state that financial literacy has a significant impact on financial behavior. Parental Financial Socialization also was a significant factor as indicated by its p-value of 0.000. For each one unit increase in Parental Financial Socialization, there is a predicted increase of 0.072 in the log odds of being in a higher level of the Financial Behavior. This suggests that higher scores in parental financial socialization are associated with better financial behavior. However, socioeconomic status such as academic qualification, income and number of dependents have no influence on the financial behavior of young working adults.

Table 5: Model Summary of Ordinal Logistic Regression Analysis model

Variables	Categories	Estimate	Significant
Financial behavior	Low	1.833	0.071
	Moderate	3.024	0.003
Academic Qualification	PMR	18.805	-
	SPM	0.069	0.921
	Diploma	0.114	0.849
	Bachelor's degree	0.027	0.962
	Master and PhD	0	-
Income	Less than RM1000	-0.226	-
	RM1001 – RM2500	-0.705	0.921
	RM2501 – RM 3500	-0.509	0.849
	RM3501 – RM 5000	0.210	0.962
	RM5000 and above	0	-
Number of dependents	Less than 3	0.744	0.144
	3 – 6	0.086	0.843
	More than 6	0	-
Financial literacy		0.325	0.003
Parental financial socialization		0.072	0.000

4. Conclusion

The main objective of this study is to analyze the factors influencing financial behavior among young working adults in Universiti Teknologi MARA (UiTM) Shah Alam. This study employs ordinal regression models to account for the ordinal term of the dependent variable. Findings reveal that the financial behavior of young working adults is not significantly associated with academic qualification, personal monthly income and number of dependents. However, literacy and parental financial socialization are significantly associated with financial behavior among young working adults. In conclusion, focusing on financial literacy and parental financial socialization is crucial for improving financial outcomes among young adults. Increasing awareness and education about financial management across different age groups can contribute to better to secure the best financial life planning and stability. Future research should look at the gender differences in financial knowledge to identify whether there is potential dissimilarity. Besides that, expanding the study to include a larger population including people across various state in Malaysia could provide insights into regional difference in financial behavior.

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