

**THE EFFECTS OF FINANCIAL  
SOCIALIZATION AND FINANCIAL LITERACY  
ON SAVING BEHAVIOUR OF YOUNG  
WORKING ADULTS WITH SELF-EFFICACY AS  
MODERATOR: A STUDY IN MAIN CITIES OF  
SABAH, MALAYSIA.**

**NUR'AMALYNA BINTI EDDRUS**

**PERPUSTAKAAN  
UNIVERSITI MALAYSIA SABAH**

**FACULTY OF BUSINESS, ECONOMICS AND  
ACCOUNTANCY**

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SAYA NUR'AMALYNA BINTI EORUS SESI PENGAJIAN 2015/2016

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TAMAN MUTIARA, SG. BEDAUN,

W.P. LABUAN

DR. ZAITON OSMAN  
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MB1512144T

## **CERTIFICATION**

**NAME : NUR'AMALYNA BINTI EDDRUS**

**MATRIC NUMBER : MB1512144T**

**TITTLE : THE EFFECTS OF FINANCIAL SOCIALIZATION  
AND FINANCIAL LITERACY ON SAVING  
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STUDY IN MAIN CITIES OF SABAH, MALAYSIA**

**DEGREE : MASTER OF BUSINESS ADMINISTRATION  
(MBA)**

### **DECLARED BY**

**SUPERVISOR**

**SIGNATURE**

**DR. ZAITON OSMAN**





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NUR'AMALYNA BINTI EDDRUS

MB1512144T

## ABSTRACT

The uptrend of Malaysian household debt is proven based on statistics of Gross Domestic Product (GDP) from Bank Negara Malaysia. The statistics shows that Malaysian GDP have increased from 57% in 2002 to 87.9% in 2014. Malaysia Department Insolvency have released the statistics of bankruptcy Malaysian based on age in 2012 and the results shows young working adults ages between 35 to 44 years old score the highest marks with 7164 persons. The main purpose of this study is to examine the possible determinants that encourage saving behaviour among young working adults in Malaysia especially in Sabah. Theory of Social Learning Theory and Life Cycle Theory were used as the foundation of this study. Through a survey method, 385 questionnaires were distributed physically to Kota Kinabalu, Sandakan, Tawau and Lahad Datu. This study used Partial Least Squares Structural Equation Modelling (PLS-SEM) version 2.0 for hypothesis testing. Findings of this study that obtained by using Smart PLS software found that parents influence, peers influence, mass media influence and financial literacy has significant positive relationship with saving behaviours of young working adults. This study also found out that self-efficacy does not have moderate effects on the relationship between these study determinants [parents influence, peers influence, mass media influence and financial literacy] and saving behaviours. The findings have theoretical and managerial implications and suggestion for future studies also been provided in order to overcome the limitations of current study.

## ABSTRAK

Trend menaik hutang isi rumah rakyat Malaysia terbukti berdasarkan statistik daripada Keluaran Dalam Negara Kasar (KDNK) daripada Bank Negara Malaysia. Statistik menunjukkan bahawa KDNK rakyat Malaysia telah meningkat daripada 57% pada tahun 2002 kepada 87.9% pada tahun 2014. Jabatan Insolvensi Malaysia telah mengeluarkan statistik kebangkrapan atau kemufisan rakyat Malaysia berdasarkan umur pada tahun 2012 dan keputusan menunjukkan orang muda dewasa yang bekerja yang berumur di antara 35 hingga 44 tahun menunjukkan markah tertinggi dengan 7164 orang. Tujuan utama kajian ini adalah untuk mengkaji faktor yang menggalakkan tingkah laku penyimpanan wang dalam kalangan orang dewasa muda yang bekerja di Malaysia khususnya di Sabah. Teori Pembelajaran Sosial (*Social Learning Theory*) dan Teori Kitaran Hayat (*Life Cycle Theory*) telah digunakan sebagai asas kajian ini. Melalui kaedah tinjauan, 385 borang soal selidik telah diedarkan secara fizikal ke Kota Kinabalu, Sandakan, Tawau dan Lahad Datu. Kajian ini menggunakan *Partial Least Squares Structural Equation Modelling (PLS-SEM)* versi 2.0 untuk ujian hipotesis. Hasil kajian yang diperolehi dengan menggunakan perisian Smart PLS menunjukkan pengaruh ibu bapa, pengaruh rakan sebaya, pengaruh media massa dan celik kewangan mempunyai hubungan positif yang signifikan dengan tingkah laku penyimpanan wang dalam kalangan golongan anak muda yang bekerja. Kajian ini juga mendapati bahawa keberkesanan diri atau efikasi sendiri tidak mempunyai kesan kepada hubungan antara penentu atau faktor kajian [pengaruh ibu bapa, pengaruh rakan sebaya, pengaruh media massa dan celik kewangan] dengan tingkah laku penyimpanan wang. Hasil kajian mempunyai implikasi teori dan pengurusan dan cadangan untuk kajian masa depan juga telah disediakan untuk mengatasi batasan kajian semasa.

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# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

Amidst current evolution in financial market, it is now increasingly necessary for individuals or household especially young adults to be more knowledgeable and competent in administering their finance. Financial literacy or knowledge will help an individual or households to create household budgets, initiate savings plan, and make strategic investment decisions (Greenspan, 2002). Some studies results shows that financial planning can lead an individual or household to have better financial outcomes and more wealth accumulation. Numerous researches have shown a positive correlation between financial planning and wealth accumulation (Lusardi, 1999; Ameriks, Caplin & Leahy, 2003; Lusardi & Beeler, 2006 and Lusardi, 2003). Savings is important especially among the young working adults since it will contribute to life satisfaction in the future. Based on empirical evidences in Xiao et al. (2009), positive financial behaviour will contribute to financial satisfaction that lead to life satisfaction. Furthermore, saving is important for future usage (education or marriage) especially in difficulties or emergency situations (health problems, accidents or job termination).

However, sharply arose in Malaysia currency in 2015 from 3.5875 per U.S dollar in May 2015 to 4.4040 per U.S dollar in January 2016 have affect the purchasing power of Malaysian people especially to those who travel and do further study in foreign country. Decreasing in Ringgit Malaysia value will cause the price of import products become expensive. Hence, when goods or services price are increase while Malaysian income is not increase, the purchasing power will be decrease and lead to decreasing in savings especially in Sabah, Malaysia where cabotage policy is imposed by the Malaysian government. Cabotage policy was introduced by government of Malaysia in 1<sup>st</sup> January 1980 with amendment of the Merchant Shipping Act 1952. The purpose of this cabotage policy is to protect and to promote



a strong national shipping industry of Malaysia. However, because of this policy, ships are required to berth at Port Klang in Selangor first in order to undergo transshipment procedures before transported the goods to Sarawak and Sabah on feeder vessels. The charge of the feeder vessels causes the prices of goods that arrive in Borneo (Sabah and Sarawak), Malaysia is much higher than Peninsula, Malaysia (Deputy Chairman of Sarawak Barisan Nasional Backbenchers Club, 2015). Increase in goods prices will decrease the purchasing power of consumers or households. Hence, it is very important for the young working adults to administering their finance efficiently and do saving in order to fulfil their needs and preparing financially to survive in current challenging economic conditions.

Today financial institutions have offered their clients a variety of products for investment, insurance, mortgages loans and savings. Maybank and HSBC Bank have offered saving investment such as bond, mutual funds, certificate of deposits (CDs) and shares for their clients. Even though varieties of saving products have been offered in the financial market, saving planning among young working adults in Malaysia is still lacking and household debt have been on the uptrend. The uptrend of Malaysian household debt is proven based on statistics of Gross Domestic Product (GDP) from Bank Negara Malaysia. The statistics shows that Malaysian GDP have increased from 57% in 2002 to 87.9% in 2014. Many Malaysian ends up in the blacklist of Central Credit Reference Information Systems (CCRIS) when they unable to pay their debts. Malaysia Department Insolvency have released the statistics of bankruptcy Malaysian based on age in 2012 and the results shows young working adults ages between 35 to 44 years old score the highest marks with 7,164 persons. General bankruptcy statistics among Malaysians are also on the rise from 2007 (13,238 persons) to 2013 (21,987 persons) which is 66% increases (Insolvency Department of Malaysia). Hence, it is very important to identify the possible determinants that encourage saving behaviour among young adults in Malaysia especially in Sabah, Malaysia.

Financial literacy basically referred to basic understanding of investing, credit management, insurance and other personal financial concern (Hill and Perdue, 2008). Financial knowledge or literacy is crucial in order to help individuals or household especially young adult in making good financial decisions such as how much to save from their income, what type of mortgage loan that best to pursue,

how should they plan for their consumptions and many more. Numerous studies but different in measurement and definitions of financial literacy have found that individuals who are financial literate are more likely to have a checking account, retirement plan, maintain an emergency fund and hold stocks ( Christelis, Jappelli & Padula, 2008; Hilgert & Hogarth, 2003; and Van Rooij, Lusardi & Alessie, 2007).

## **1.2 Problem Statement**

### **1.2.1 Young Working Adults Issues towards Saving Behaviour**

Even though nowadays, financial markets have offer young adults to a wide range of financial products, however, the rate of young adults that have been listed in the Central Credit Reference Information Systems (CCRIS) also increase from time to time in Malaysia. Based on statistics that released by Malaysia Department of Insolvency (MDI), since year of 2010 up until April of year 2015, 23, 484 persons of young adults (25 to 34 years old) are declared as bankruptcy person. At the same time, households in the range of age 35 to 44 are declared as the highest score of bankruptcy which is 37,888 persons. Subsequently, Central Bank of Malaysia (2013) also reported Malaysia's household debts have increase 86.8% of gross domestic product (GDP) from 80.5% in 2012.

In a study that conducted by Visa USA Incorporation (2007), by 2015, the young adults will account for approximately USD2.45 trillion of annual spending. Today's young adults are likely to spend their cash not merely for necessity but more towards goods or services that can enhance their lifestyle and satisfied their luxury needs. It is believed that, young adults make purchases to define themselves and to create and identity of their own making (Holbrook and Schindler, 1989). In a study of Der Hovanesian (1999), young adults or Generation Y consumers are very likely to spend their cash as quickly as they acquire the cash and usually they spend their cash on consumer goods and personal services. Recently, in May 2016, there is a case that involve Malaysian university student in Australia that allegedly spending AUD\$4.6 million (RM13.8 million) that was mistakenly transferred into her Westpac Bank account by Australian bank. Christine Jiaxin Lee, 21 years old had spent copious amount of the money on designer handbags, clothing, jewellery and even a deluxe vacuum cleaner. Young adults or



Generation Y spend most of their discretionary income on three product categories which are apparel (34%), entertainment (22%) and food (16%) (Alch, 2000). From this case, it shows that today young adults consumptions is beyond their resources or income that cause them to stuck in a very high debt burden. Hence, it is very important for this young adult generation to control their bad spending behaviour and start to do savings for future well-being.

Supposedly, wide range of financial products that offer today by the financial market should encourage the young adults to do savings since the responsibility towards their financial well-being also becomes greater from day to day. Without sufficient savings, individuals will face difficulties and stress when confronts with emergency matter. According to Prawits, Garman, Sorhaindo, O'neil, Kim and Drentea (2006), households that having too little of savings tends to face financial difficulties in addition to having deficient emergency savings which in turn will causes anxiety and leads to serious health problem. Inappropriate financial decisions among the young working adults have cause various problems such as harassment from loan sharks, bankruptcy, and even suicide. Hence, it is very crucial to examine the determinants of saving behaviours among young adult in Sabah, Malaysia since the benefits not only for the households or individuals, but also for the country economic growth.

### **1.2.2 Financial Socialization: Parents, Peers and Mass Media Influences**

Socialization of the importance of saving during childhood have influence the children economic behaviour during adulthood (Nyhus and Webley, 2006). According to Shim (2010) study, parents have more influence over their children's financial knowledge, attitudes and behaviours compare to work experience and high school education. In the study that focuses on the effect of social comparison to saving by Duensberry's (1949), individuals tend to compare savings or consumptions with their reference group. It is believed that an individual will be motivated to save or spend whenever the reference group spends or saves higher than them. Hence, since parents play major roles in their children life, having negative behaviour on savings will influence the children negatively. If the parents do not emphasize the crucial of savings among their children, this may implant a though among the children that savings is not important.

Young adults are deemed to be easily influenced by peers inspiring and also easy to be pressured by peers pressure when deriving to decision making (Montandon, 2014). Since this young working adults are easy to be influenced by their peers, when it comes to purchasing pattern, this young adults' decision in purchasing goods is mostly influenced by their peers. Changing in the lifestyle, desire to have high standards of living such as buying branded clothes, travelling, dine in fast-food restaurant and some other more have leads the consumption of these young working adults and at the same time its lower savings among them.

Study by Othman and Sim (1993) have shown that shopping activities become the choice of leisure activity of Malaysian young adults. Individuals or household socialization process starts at early stage of life where culture, role models such as parents and peers had deeply influenced them (Solomon, 2004). Hence, it is very crucial to choose wisely friends to be socialize with and role model to be followed since these people influence in an individual life is bigger. Social Learning Theory (SLT) believe that, human tends to acquire knowledge and behaviour through observation (Bandura, 1997; Bush & Martin, 2000; and Solomon, 2004). Hence, socializing with people that portrays positive attitudes towards savings will encourage the young working adults to have the same attitudes towards savings.

### **1.2.3 Financial Literacy Issue**

One reason individuals do not engage in planning or are not knowledgeable about pensions or the terms of their financial contracts is that they lack financial literacy. Bernheim (1995, 1998) was one of the first to emphasize that most individuals lack basic financial knowledge and numeracy. Financial illiteracy and having lack of information on financial products will affect the ability to save as well as secure a comfortable retirement. Being ignorant about basic concepts of finance can lead to lack of retirement planning, dissaving and lack of wealth accumulation. Individuals that faces financial illiteracy usually more likely to take payday loans, make only the minimum payment on a credit card balance, take on high-cost mortgages, have higher debt levels and be delinquent on debt (Gerardi, Goette and Meier, 2010; Lusardi and Tufano, 2008; Moore, 2003; Stango and Zinman 2008).

Several studies have identified that people who faces financial illiteracy usually make three major financial mistakes. The financial mistakes are, under participating



in financial markets, inadequately diversifying their investment portfolios and poor in choosing mortgage loan or contracts (Campbell, 2006). Furthermore, individual with financial illiteracy that occurs because of fewer years of schooling often could not understand the mortgages terms especially when the mortgages feature adjustable rates (Bucks and Pence, 2006). Unable to calculate correctly interests out of a stream of payments will lead individuals to borrow more and accumulate lower wealth (Stango and Zinman, 2007). According to Agarwal, Driscoll, Gabaix and Laibson (2007) research, financial mistakes frequently occur among the young adult and elderly and they also potrays financial illiteracy as well as having low cognitive ability.

Organize financial education programs is very important in order to improve financial literacy that lead to increasing in savings and financial decision making. However, to ensure the saving intentions and financial decision making to improve, the effectiveness of financial education programs should be enhanced first. For instance of financial education or literacy programs are financial information that provided in the work place by employers for their workers which focus on retirement saving issues, provides finance subjects in each level of education institution of Malaysia and counselling or talk programs on finance products (for instances loan and mortgages) that focusing on borrowing behaviour and bankruptcy issues.

#### **1.2.4 Self-efficacy Issue**

Self-efficacy is one of the important construct of social psychology which refers to a feeling of being able to deal with a situation effectively (Bandura, 1977). Thus, in the context of financial behaviour, self-efficacy is about how far an individual belief on their abilities when it comes in dealing with various situations and achieving financial goals in their life. Individual that has low self-efficacy belief that difficult tasks and situations are beyond their capabilities and they also tends to focus on personal failings and negative outcomes. Thus, low self-efficacy might drive an individual to negative saving behaviour. If a person does not believe with their capability to save money, this may causes failure in money savings and indirectly affect negatively the individual well-being especially their physical and mental health. Individuals with high level of self-efficacy are expected to produce benefits for their life well-being, physical and mental health (Bandura, 1977, 1982; and

Gecas 1989). It is belief that the sources of self-efficacy are from social modelling, mastery experiences, social persuasion and psychological response. Hence, if people surround an individual display negative financial behaviour, this will influence the individual level of self-efficacy that later effect the saving behaviour of the person. Financial literacy not only can be developed through formal education, it's also can be gain through life experience when dealing with various situations that involve money management. Thus, negative life experience in money management will decrease a person self-efficacy level that lead to negative saving behaviour.

### **1.3 Research Questions**

**Question 1** : Does parents influence has a positive relationship with the saving behaviour of young working adults in Sabah?

**Question 2** : Does peers influence has a positive relationship with the saving behaviour of young working adults in Sabah?

**Question 3** : Does mass media influence has a positive relationship with the saving behaviour of young working adults in Sabah?

**Question 4** : Does financial literacy has a positive relationship with the saving behaviour of young working adults in Sabah?

**Question 5** : To what extent does self-efficacy moderates the relationship between the determinants (parents influence, peers influence, mass media influence and financial literacy) and saving behaviour of young working adults in Sabah?

**Question 6** : Does demographic factors [gender, age, level of income, level of education and number of children] influence saving behaviour of young working adults?

## **1.4 Research Objective**

The objective of this study is to examine the relationship between financial attitudes, financial literacy and saving intentions among young adults in Sabah, Malaysia.

1. To investigate the relationship between financial socialization and saving behaviour among young working adults in Sabah, Malaysia.
  - (i) To assess the relationship between parents influence and saving behaviour among young working adults in Sabah, Malaysia.
  - (ii) To assess the relationship between peers influence and saving behaviour among young working adults in Sabah, Malaysia.
  - (iii) To assess the relationship between mass media influence and saving behaviour among young working adults in Sabah, Malaysia.
2. To examine the relationship between financial literacy and saving behaviour among young working adults in Sabah, Malaysia.
3. To evaluate the moderating effects of self-efficacy on the relationship between the determinants [parents, peers, mass media and financial literacy] and saving behaviour among young working adults in Sabah, Malaysia.
4. To examine the relationship between demographic factors [gender, age, level of income, level of education, and number of children] and saving behaviour among young working adults in Sabah, Malaysia.

## **1.5 Scope of Study**

The main focus of this study is to examine the effects of financial socialization [parents influence, peers influence and mass media influence] and financial literacy on saving behaviours of young working adults in Sabah, Malaysia with self-efficacy as the moderator of this study. This study will be conducted in main cities of Sabah which is Tawau, Sandakan, Lahad Datu and Kota Kinabalu, Sabah. Since this study is focuses on saving behaviour of young workings adults of Sabah, Malaysia, it is more convenience to conduct this study in the four main cities of Sabah.

This study also tested the moderating effects of self-efficacy on the relationship between the determinants [parents influence, peers influence, mass



media influence and financial literacy] and saving behaviour among young working adults in Sabah, Malaysia. This study perceives behavioural intention to save among the young working adults rather than actual saving behaviour. The respondents of this study are young adults that have occupation in the range of age between 15 to 40 years old. Regardless of what type of career that the respondents hold, as long as they have occupation and age is between 15 to 40 years old, they are qualified to become these study respondents.

The United Nation Secretariat (UNESCO) defined young adult or youth as a person in the range of ages between 15 to 24 years old (UN Instrument, Statistics). In the context of African Youth Charter, young adult is a person in the group of age between 15 to 35 years old (African Union, 2006). National Youth Development Policy of Malaysia has defined young adult or youth as a person range between the ages of 15 to 40 years old. Definition of young adult might different or changes across the world or particular circumstances (change in economic, demographic, financial and socio-cultural). Department of Statistics of Malaysia have defined labour force is working people in the range of age between 15 to 64 years old. Hence in the context of this study, young working adults are group of people in the range of age between 15 to 40 years old that have occupation.

## **1.6 Significance of Study**

This study will help young adults especially to those who just enter labour market to make better financial plans for their future and help them to choose the most appropriate financial instrument that will help them to achieve their financial goals. Through this study, individuals will aware that they have greater responsibility for their financial well-being for better future. Wise and timely saving and investment decisions can be keys for financial security for an individual.

Other than that, this study also will help finance and bank industry to strategize business strategy in order to attract young working adults to save and participate in financial market. Through this study, finance and bank industry can create and design financial products that suit the needs of the young working adults in order to increase household savings and help them to improve their well-being and poverty in the future.



Besides that, study on individual savings especially among young adults will benefits the entire nations if this study is seen at the macroeconomic level. Saving has a positive impact on the economy as a whole because funds that placed in the financial market by the saver will be used by the financial intermediaries to channel the funds to investors that need the funds for their investment. Subsequently, investments by an organization or firms will ultimately benefits the country through higher productivity from the business activity and economic growth. Besides that, high savings also indirectly will help a country against economic downturns and financial crisis.

## **1.7 Terms and Definition**

### **1.7.1 Young Working Adults**

National Youth Development Policy of Malaysia has defined young adult or youth as a person range between the ages of 15 to 40 years old (National Youth Development Policy of Malaysia, 1997).

### **1.7.2 Saving Behaviour**

Saving behaviour is about how an individual perform positively or negatively action (Ajzen, 1991) on their residual income so they can fulfil their financial commitments and prepare for future well-being (Warneryd, 1999).

### **1.7.3 Financial Socialization**

In this context of study, financial socialization can be defined as how people surround an individual can influence their financial behaviour (Franzoi, 2006) especially the three major social powers which are parents, peers and mass media (Bush, Smith & Martin, 1999; Moschis & Moore, 1984) .

### **1.7.4 Financial Literacy**

Financial literacy can be defined as sufficient financial knowledge that lead to success management of personal finance (Garman & Forgue, 1997) and can guide to good financial decision making (Miller et al., 2009).

### **1.7.5 Self-Efficacy**

Self-efficacy reflects the extent to which individual perceive themselves as capable enough to implement the sequence of acts that are needed to fulfil some goals or perform some tasks effectively (Bandura, 1977, 1982; Gecas, 1989).

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