

# **RELATIONSHIP BETWEEN FINANCIAL LITERACY AND ITS COMPONENT: A RESEARCH ON WORKING WOMEN**

NUR NAJIHAH BINTI ASHAARI<sup>1, a)</sup>, ZAHAYU BINTI MD YUSOF<sup>1), b)</sup>

<sup>1</sup>*School of Quantitative Sciences, Universiti Utara Malaysia*

<sup>a)</sup> najihah4shaari@gmail.com, <sup>b)</sup> zahayu@uum.edu.my

## **Abstract**

Developing countries, such as Malaysia, are in need of working women to help to improve the country's economy. Thus, it is of immense need for our economy to take into consideration the fact that where and how working women are spending or investing their funds. For appropriate utilization of funds, working women need to be financially literate. Financial literacy is the convergence of financial, credit and debt management and the knowledge that is necessary to make financially responsible decisions. This paper is conducted to assess the correlation between financial literacy and its component namely financial education, financial attitude, financial behavior and financial knowledge. Data processing of this study using a Pearson correlation coefficient and the sample size of 35 respondents which is working women in Universiti Utara Malaysia. A part from Pearson correlation coefficient, include descriptive statistics of frequency counts and percentages as a method of data analysis employed in this study. The data are quantitatively analyzed through statistical software namely, Statistical Packages for Social Science (SPSS) version 25.0. The result indicates that financial literacy does not have a significant relationship with financial knowledge. However financial education, financial attitude and financial behavior together have a significant relationship with financial literacy.

***Keywords:*** *Financial Literacy, Working Women, Correlation*

## **1. INTRODUCTION**

Nowadays, without an understanding of basic financial concepts, people are not well equipped to make decision related to financial management. People who are financially literate have the ability to make informed financial choices regarding saving, investing, borrowing and more (Klapper, Lusardi & Peter, 2016). A person is defined as financially literate when he or she have a basic knowledge on concepts of financial decision making. Only 33 percent of adults worldwide are financially literate. This means that around 3.5 billion adults globally, most of them in developing economies, lack an understanding of basic financial concepts (Klapper et. al., 2016). 65 percent or more adults are financially literate in the countries with the highest financial literacy rate likes Australia, Canada, Denmark, Finland, Germany, Israel, the Netherlands, Norway, Sweden and the United Kingdom. On the other end of the spectrum, South Asia is home to countries with some of the lowest financial literacy scores, where only a quarter of adults or fewer are financially literate (Klapper et. al., 2016).

In Malaysia, according to RAM Credit Information Sdn Bhd (RAMCI), Malaysia's financial literacy rate still sits below average compared to other nation. The Credit Counselling and Debt Management Agency (AKPK) revealed that out of 30 countries, Malaysia ranked 26th for financial literacy in the 2016 Report for the Organization for Economic Cooperation and Development. In 2018, the RinggitPlus ran the 2018 Malaysian Financial Literacy Survey and found that as many as 59% of Malaysians do not have enough savings to last them for more than 3 months, and that 34% admitted to spending equal to or more than their monthly salary. It shows that Malaysians are managing their finances poorly, making them feel less prepared for financial shocks.

Financial literacy is the convergence of financial, credit and debt management and the knowledge that is necessary to make financially responsible decisions. A lack of financial literacy is not only an issue in developing economies but also people in developed or advanced economic countries fail to demonstrate a strong knowledge of financial principles in order to understand and negotiate the financial matters, manage financial risks effectively and avoid financial difficulties (Xu & Zia, 2012). Financial literacy is a combination of financial knowledge, financial education, attitudes and behaviors. These four components are the key of

financial literacy for making informed decisions and for solving financial problems (Adriana & Valenzuela, 2017).

In terms of gender, Lusardi and Mitchell (2007) revealed that women tend to report lower financial literacy than men. Lusardi and Tufano (2009) supported the finding that males are more financially literate than females and the respondents who are divorced, widowed and separated have a low level of financial literacy. In the working world, financial challenges have clear negative consequences on a worker's health and job performance. Many researchers have found that financially troubled employees do bring their financial related stress to work and hence affecting the productivity, organization's overall profit figure and also the work culture in the long run. There is a significant relationship between financial challenges and stress related illnesses. Financial stress or strain occurs when individuals are unable to meet their financial responsibilities and one of the most significant causes of workers' stress is personal finance (Kim & Garman, 2006). Therefore, financial problems and stress affect not only an employee's personal and family life but is also a cost to the employers.

In Malaysia, education levels, types of professions and government pension schemes have significantly affected the financial knowledge of working adults (Loke, 2015). However, according to Hung et al. (2 September 2009) financial behavior and individual capabilities are influenced by their financial knowledge and beliefs that may not be related to actual knowledge. Therefore, there is a difference between actual and perceived financial knowledge. Therefore, Huston (2010) argues that knowledge gaps are due to differences between perceived and actual financial knowledge that may hinder good personal financial management practices.

There is no strong evidence for a link between financial education and individual performance on financial literacy. For example, Folk et al. (2012) studied the relationship between financial learning and individual preparation planning and found that mediation effects between financial learning and personal financial planning among older age groups. Therefore, each researcher has different opinion on the relationship between financial literacy and its components. Thus, this study was designed to assess the correlation between financial literacy and its component namely financial education, financial attitude, financial behavior and financial knowledge.

## 2. METHODOLOGY

The purpose of this preliminary study is to assess the correlation between financial literacy and its component namely financial education, financial attitude, financial behavior and financial knowledge. The primary data were used for this study and the convenience sampling technique was employed to select a sample of 35 working women in Universiti Utara Malaysia. The structured questionnaires consisted of 25 items on financial literacy. The questionnaire was formulated using Semantic Differential Scale. The working women had express their extent to which they agree with the statement on five-point scale from 1 which is strongly disagree until 5 which is strongly agree. These scales allow us to transform qualitative information about the attitudes and opinions of respondents into quantitative form. The data collected were analyzed using Pearson correlation by utilizing Statistical Package of Social Science (SPSS).

## 3. RESULT AND FINDINGS

### 3.1 Demographic Information

Table 1

Demographic Characteristics of Respondents

<b>Demographic</b>	<b>Status</b>	<b>Frequency</b>	<b>Percentage</b>
Age	20 – 29 years old	13	37.1
	30 – 39 years old	14	40
	40 – 49 years old	5	14.3
	50 – 59 years old	3	8.6
Status	Single	17	48.6
	Married	18	51.4
Race	Malay	30	85.7
	Chinese	3	8.6
	Indian	2	5.7
Occupation	Private	22	62.9
	Government	13	37.1
Salary	RM 1,000 – RM 2,999	13	37.1
	RM 3,000 – RM 4,999	11	31.4
	RM 5,000 – RM 6,999	6	17.1
	RM 7,000 – RM 8,999	4	11.4
	More than RM 9,000	1	2.9

Table 1 above shows the profiles of the respondents in this study. 40% of the respondents were aged between 30 to 39 years, with an average age of 35.8 years. The majority (51.4%) of the respondents were married. Malay comprised 85.7% of the respondents, followed by Chinese (8.6%) and Indian (5.7%). 62.9% of the respondents were from private sector otherwise (37.1) from government sector. In addition, the monthly salary of a majority of the respondents (37.1) ranged from RM 1,000 to RM 2,999. The results are displayed in Table 1.

### 3.2 Reliability Statistics

Table 2

Reliability Statistics

<b>Cronbach's Alpha</b>	<b>N of Items</b>
0.892	25

Table 2: Reliability Statistics

The researchers should use Cronbach's alpha to increase the accuracy and validity of their decisions suggested by Tavakol and Dennick (2011). According to Bland and Altman (2002), Cronbach's alpha is the best summary measure for testing the reliability. The range of Cronbach's alpha normally is between 0 and 1. Joseph and Rosemary (2003) suggest that the Cronbach's alpha value above 0.7 is considered as a good value to carry forward. Based on Table 2, the Cronbach's alpha value is 0.892 which is greater than 0.7 hence the questionnaire can be considered as the reliable.

### 3.3 Pearson Correlation Coefficient

Table 3

Pearson Correlation Coefficient of Financial Literacy

<b>Correlations</b>		
		<b>Financial Literacy</b>
<b>Financial Education</b>	Pearson Correlation	.434**
	Sig. (2-tailed)	.009
	n	35
<b>Financial Attitude</b>	Pearson Correlation	.472**
	Sig. (2-tailed)	.004

	n	35
<b>Financial Behavior</b>	Pearson Correlation	.675**
	Sig. (2-tailed)	.000
	n	35
<b>Financial Knowledge</b>	Pearson Correlation	.193
	Sig. (2-tailed)	.266
	n	35
**. Correlation is significant at the 0.01 level (2-tailed).		

This study sought to establish the correlation between the dependent variable which is financial literacy and each of the independent variable which are financial education, financial attitude, financial behavior and financial knowledge. Correlation is a statistical technique employed to show the strength of pairs of variables is used to examine the association between the independent variable with the dependent variable. The correlation test was conducted at the 5% level of significant with a 2-tailed test. The findings illustrated in Table 3 above show that, financial literacy has a positive and significant association with financial education, financial attitude and financial behavior. Otherwise, there is no significant association between financial literacy and financial knowledge.

The correlation coefficient between financial literacy and financial education is 0.434 with a significance value of 0.009 which is less than 0.05 at the 5% level. The results indicate that after accounting for the relationship between financial literacy and financial education among working women in Universiti Utara Malaysia, financial education was found to be significant related to financial literacy. According to Zaimah et al. (2013), financial education is any program, knowledge and skill that addresses the financial concepts and topics that educate and improve financial literacy.

The coefficient for the association between financial literacy and financial attitude is 0.472 with a p-value of 0.004 which is also less than 0.05. This result supported by Jorgensen (2007) research that personality characteristic which is financial attitude has a significant effect on financial literacy. Ibrahim, Harun & Isa (2009) also revealed that the characteristics of personnel as financial attitudes significantly affect to financial literacy. Therefore, the way working women spend their money can affect their financial literacy either poor or good.

From the table also, the correlation coefficient for the association between financial literacy and financial behavior is 0.675 with a p-value of 0.000 less than 0.05 depicting a significant correlation between the variables. Agarwalla et al. (2013) found that majority of Indian working youth (68 per cent) were exhibiting desirable financial behavior, i.e. were self-disciplined when dealing with household finance and personal money and were more likely to make timely payment of bills, to assess affordability of products, to set financial goals, to carefully evaluate financial products and to depend on savings or assets instead of borrowings in times of crisis. These results were similar to the findings of the OECD countries survey.

The correlation coefficient for financial literacy and financial knowledge is 0.193 and its show that there is no significant correlation between the variables since the p-value is 0.266 which is more than 0.05. The findings of this study supported by the research of Agarwalla et al. (2013), reported that working youth of India performed poor on financial knowledge dimension of financial literacy by displaying lack of basic numeracy, inability to understand the basic money-related principles and inability to assess the impact of inflation on rate of return.

#### **4. CONCLUSION**

This study directed to assess the correlation between financial literacy and its component namely financial education, financial attitude, financial behavior and financial knowledge among working women in Universiti Utara Malaysia. Working women comprises of major portion of workforce, therefore it is essential for them to be financially literate. As concluded by this study, financial education, financial attitude and financial behavior are the variables that significantly positive correlated with the financial literacy among working women. The current approach to financial literacy is still ad-hoc, without leadership or strategic direction. Federation of Malaysian Consumer Associations (FOMCA) called on the government to give priority to financial literacy for all, especially those most in need. As of June 2015, 62 countries around the world are implementing some form of national financial education plan. Malaysia desperately needs a national financial education strategy to provide clear leadership and strategic direction in empowering consumers through financial education. It can be concluded that government should focus more on financial education first in order to confirm that working women in Malaysia are financially literate.

## REFERENCES

- Adriana B. V. A and Valenzuela J. R., 2017. Financial Literacy: Gaps Found Between Mexican Public and Private, Middle, and High-School Student.
- Agarwalla, S. K., Barua, S. K., Jacob, J., &Varma, J. R. (2013). Financial Literacy among Working Young in Urban India. Indian Institute of Management Ahmedabad, WP, (2013-10), 02.
- Bland, J. M., and Altman, D. G. (2002). Validating scales and indexes. *Bmj*, 324(7337), 606-607.
- Folk, J. Y., Beh, L. S., and Baranovich, D.-L. (2012). Financial education: determinant of retirement planning in Malaysia. *E3 Journal of Business Management & Economics*, 3(2), 69-78.
- Hung, A., Parker, A. M., and Yoong, J. (2009). Defining and measuring financial literacy.
- Huston, S. J. (2010). *The Journal of Consumer Affairs Measuring Financial Literacy*. 44(2):296–316.
- Ibrahim, D., Harun, R., and Isa, Z.M. (2009). A study on Financial Literacy of Malaysian Degree Students. *Cross-Cultural Communication ISSN 1712-8358*,5(4),51-59.
- Jorgensen, B. L. (2007). Financial Literacy of College Students: Parental and Peer Influences.
- Joseph A. and Rosemary R. (2003). Calculating, Interpreting, and Reporting Cronbach's Alpha Reliability Coefficient for Likert-Type Scales.
- Kim, J., Sorhaindo, B., and Garman, E. (2006). Relationship between financial stress and workplace absenteeism of credit counselling clients. *Journal of Family and Economic Issues*, 27(3), 458-478.
- Klapper, L., Lusardi, A., and Peter, V.O. (2016). Financial Literacy Around the World: Insight From the Standard & Poor's Ratings Services Global Financial Literacy Survey.
- Loke, Yiing Jia. (2015). Financial Knowledge and Behaviour of Working Adults in Malaysia.
- Lusardi, Annamaria, and Olivia S. Mitchell. (2007). Baby Boomer Retirement Security: The Role of Planning, Financial Literacy, and Housing Wealth. *Journal of Monetary*



*Economics*, 54, pp. 205–224.

Lusardi, A., and Tufano, P. (2009). Debt literacy, financial experiences, and over indebtedness. National Bureau of Economic Research.

Tavakol, M., and Dennick, R. (2011). Making sense of Cronbach's alpha. *International Journal of Medical Education*, 2, 53.

Xu, L., and Zia, B. (2012). Financial literacy around the world: an overview of the evidence with practical suggestions for the way forward. *World Bank Policy Research Working Paper*, (6107).

Zaimah, R., Sarmila, M., Lyndon, N., Azima, A., Selvadurai, S. and Saad, S. (2013). Financial Behaviors of Female Teachers in Malaysia. *Asian Social Science*, 9(8), p.34.