

# Factors Affecting To Personal Financial Management Behaviours Of GOVERNMENT Employees In Sri Lanka

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**Abstract:** This study attempts to investigate factors affecting to personal financial management behaviours of government employees in Sri Lanka by examining the relationship among the factors including Financial attitude, Financial knowledge, Locus of control and Personal financial management behaviours. Financial attitude, financial knowledge and Locus of control are the independent variables and Personal financial management behaviour is the dependent variable in this study. The fundamental purpose of this study is to identify the financial behaviour of government employees in Sri Lanka. A survey approach on the government employees in Anuradhapura and Kegalle districts has been used to examine the research model. Researchers have used purposive sampling method; 200 questionnaires have been issued by the researchers and 180 responses have been received. Cronbach's alpha, Pearson correlation, regression analysis has been used as statistical tools to measure the relationship among the variables and SPSS has been used as a statistical software for analysing the data. According to the findings, financial attitudes and financial knowledge relate positively to financial management behaviour (significant at the 0.05 or 0.01 levels) besides locus of control relates negatively to financial management behaviour (significant at the 0.05 level). Moreover, according to  $R^2$  of multiple regression analysis, impact towards dependent variable from the independent variables is around 75% ( $R^2=0.74$ ). It is expecting that this study will bridge the existing research gap in the area of personal financial management in Sri Lankan context to some extent. Beside these findings will be helpful for further studies related to personal finance management and institutions which are interested in enhancing personal financial management in developing countries like Sri Lanka.

**Keywords:** *Personal financial attitude, Financial knowledge, Locus of control, Financial management behaviours*

## INTRODUCTION

Managing finance is vital not only for business organizations such as big companies or Small and Medium size Enterprises (SME) but also for a family, it is very important. Financial management within the family is very important to have good lifestyle. In some cases, several families can be found which run out of financial resources and helpless at some emergency situations, but they have enough income and properties. It is due to poor personal finance management behaviour of family members. Proper financial management within the family and maintaining the financial health is vital to be well supplied with economical resources when in need. Due to the failure in managing the financial resources many families get bound to bank loans, and often get bankruptcy. Improper management of wealth sources will raise possible risks in life and will create unwanted situations in life. Managing money is not a complex concept, if it is approached smoothly.

Financial management behaviour is considered as a major concept on the financial discipline. Horne et al.(2002) have suggested financial management behaviour as the determination, acquisition, allocation, and utilization of financial resources. Weston and Brigham (1981) have defined financial management behaviour as an area of financial decision-making, harmonizing individual motives and enterprise goals. According to Nguyen Thi Ngoc Mien et al (2015) has considered financial attitude, financial knowledge and locus of control as factors affecting to personal financial Management behaviours.

Financial attitude can be considered as the psychological tendency expressed when evaluating recommended financial management practices with some degree of agreement or disagreement (Parrotta et al. 1998). The term financial knowledge refers sufficient knowledge about facts on personal finance and is the key to personal financial management behaviours (Garman et al, 2006) The term

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locus of control construct is the best conceptualized as a person's perception of their place in the world (Rotter, 1966). In a study Hellrigel et al. (2010) has mentioned locus of control as the extent to which individuals believe that they can control events which affect them.

There are many studies investigating the relationship between personal financial management behaviour and personal characteristics such as financial knowledge, financial attitude and locus of control. However, such studies in the Sri Lankan context are limited. Therefore, the objective of this study is to examine the relationship among financial knowledge, financial attitudes, and locus of control in explaining personal financial management behaviour among the government employees in Sri Lanka.

## LITERATURE REVIEW

Effective financial management behaviour should improve financial well-being positively and failure to manage personal finances can lead to serious long term, negative social and societal consequences. Thus, financial management is mainly concerned with the effective fund management (Joo et al., 2009). A number of researches have proved that financial attitudes as an important factor determining a person's financial behaviour. Financial attitudes shape the way people spend, save, hoard, and waste money (Furnham, 1984).

The importance of financial knowledge is obvious as it is typically used as an input to a model that determines the need for financial education and explained variations in behaviour and financial outcomes such as savings, investment, and credit behaviour (Idris et al., 2013). The relationship between Financial knowledge and Personal financial management behaviour is conclusive, as all studies find that having financial knowledge does influence individuals to behave in a more financially responsible ways (Robb et al., 2011; Nguyen Thi Ngoc Mienet et al., 2015). Parrotta et al. (1998) find a positive relationship between financial attitudes and financial behaviours.

Locus of control had two dimensions: as internal control and external control. Those with an internal locus of control are apt to be goal driven and often than not. External control referred to events such as luck, chance, and fate as being under the control of powerful others (Hoffman et al., 2000). Dessart and Kuylen (1986) found that people who were more external in their orientation were more likely to experience financial difficulties. Perry and Morris (2005) conclude that how people feel about money depends on how they feel about their lives. Locus of control has also been to discriminate between those who save and those who do not, in which savers being internal in orientation than non-savers (Lunt and Livingstone, 1992). The study by Zakaria et al. (2012) finds evidence support for a mediating role of a locus of control on the relationship between financial knowledge and personal financial management behaviour.

No study has investigated the combined effect of financial knowledge and financial attitudes on financial management. Research in the psychological literature on attitudes suggests that knowledge moderates the correspondence between attitudes and behaviour (Parrotta et al. 1998). This study expands on the studies before in finding out affection of Financial attitude, Financial knowledge and Locus of control on personal financial management behaviours of government employees in Sri Lanka. In Sri Lankan context, very less number of studies available about personal finance management behaviour and related factors. Hence, researchers try to fulfil existing research gap through this study.

## METHODOLOGY

The study population comprised government employees in Sri Lanka. According to Hair et al. (2010), the sample should be 100 or greater and the minimum sample should have a desired ratio of five observations per item. Hence, Researchers have used purposive sampling method, 200 questionnaires have been issued by the researchers and 180 responses have been received. Data were collected using convenience sample method with a structured questionnaire.

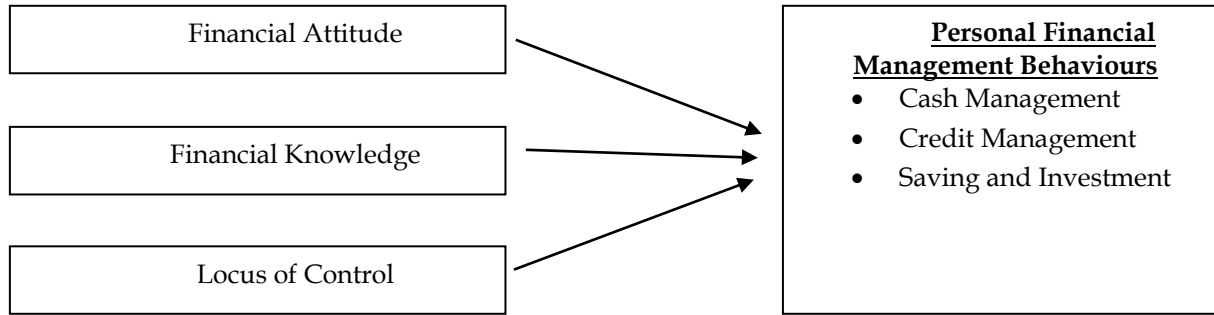


Figure 1 Conceptual Model

According to conceptual model, there are three independent variables in this study as Financial attitudes, Financial knowledge and Locus of control. The dependent variable is Personal Financial Management Behaviours. The measurements of constructs are based on prior studies.

Specifically, personal financial management behaviour was adopted from Xiao and Dew (2011), financial attitudes were measured according to Perry and Morris (2005) and a study of Rajna et al. (2011) has also been used to measure financial knowledge. For measuring the locus of control researcher has followed the study of Rotter (1966).

The first step in analysing the data collected is test the reliability of the questionnaire by using Cronbach’s alpha. According to Hair.J at el. 2006, the following decision criteria have been used to identify the level of Personal Finance Management Behaviour of the respondents. Same decision criteria have been used in the study about Risk Management practices in Sri Lankan SMEs by Abeyrathna.S.P.G.M. at el. 2016.

Table 1: Decision Criteria

| Mean Value | Decision |
|------------|----------|
| 1.0-2.49   | Low      |
| 2.5-3.49   | Moderate |
| 3.5-5.0    | High     |

Furthermore, to extend the objectives of the research, Pearson correlation analysis have been used to prove the relationship between dependent and independent variables. In here following hypothesis will be tested.

**H1:** There is a relationship between Personal Finance Management Behaviour and Financial Knowledge

**H2:** There is a relationship between Personal Finance Management Behaviour and Financial Attitudes

**H3:** There is significant relationship between Personal Finance Management Behaviour and Locus of Control

(Developed by the researcher based on the findings of the prior studies)

In the case of measuring the impact of Financial Knowledge, Financial attitudes and Locus of Control towards Personal Financial Management Behaviours, the following models were tested.

$$FB = \alpha + \beta FK \quad \text{-----} \rightarrow \text{Model 01}$$

$$FB = \alpha + \beta FA \quad \text{-----} \rightarrow \text{Model 02}$$

$$FB = \alpha + \beta LC \quad \text{-----} \rightarrow \text{Model 03}$$

$$FB = \alpha + \beta FK + \beta FA + \beta LC \quad \text{-----} \rightarrow \text{Model 04}$$

(FB- Financial Behaviour, FK- Financial Knowledge, FA- Financial Attitudes, LC- Locus of Control)

**DATA ANALYSIS**

Dependent and independent variables were measured by five-point Likert scale method. Therefore, it is vital to do a reliability test for the questionnaire. Here, internal consistency has been tested using Cronbach's alpha in SPSS statistic, using a sample of 26 respondents as a pre-study.

Table 2 Reliability Statistics

| Variable            | Cronbach's Alpha | N of Items |
|---------------------|------------------|------------|
| Financial Behaviour | .716             | 26         |
| Financial Knowledge | .702             | 26         |
| Financial Attitudes | .714             | 26         |
| Locus of Control    | .745             | 26         |

Table 2 shows that Cronbach's Alpha is higher than 0.7 in the case of every selected variable. (Generally Accepted Level according to Hair.J at el. 2006). It indicates that, there is a high level of internal consistency for this scale with this specific sample.

Table 3 Mean Testing

| Personal Financial Management Behaviour Measurement Criteria | Mean value | Level    |
|--|------------|----------|
| Cash Management  | 3.8        | High     |
| Credit Management  | 3.3        | Moderate |
| Saving & Investment  | 3.1        | Moderate |

Table 3 shows that means test of the variables which is related under Personal Financial Management Behaviour Measurement Criteria. According to decision criteria, it shows that the all three types of Personal Financial Management Behaviour Measurement Criteria are in moderate and high levels. It indicates most of the respondents of this study have good Personal Financial Management Behaviour.

Table 4 Correlations & Significant values

|  |                        | PFMB          | FK      | FA     | LC  |
|--|------------------------|---------------|---------|--------|-----|
| Personal Finance Management Behaviour (PFMB) | Pearson Correlation    | 1             |         |        |     |
|  | Significant (2-tailed) |               |         |        |     |
|  | N                      | 180           |         |        |     |
| Financial Knowledge (FK)                     | Pearson Correlation    | <b>.360**</b> | 1       |        |     |
|  | Significant (2-tailed) | <b>.000</b>   |         |        |     |
|  | N                      | <b>180</b>    | 180     |        |     |
| Financial Attitude (FA)                      | Pearson Correlation    | <b>.340**</b> | .165*   | 1      |     |
|  | Significant (2-tailed) | <b>.000</b>   | .027    |        |     |
|  | N                      | <b>180</b>    | 180     | 180    |     |
| Locus of control (LC)                        | Pearson Correlation    | <b>-.156*</b> | -.235** | .259** | 1   |
|  | Significant (2-tailed) | <b>.036</b>   | .002    | .000   |     |
|  | N                      | <b>180</b>    | 180     | 180    | 180 |

\*\* . Correlation is significant at the 0.01 level (2-tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

According to the Table 4, there is a significant relationship between Personal Finance Management Behaviour and Financial Knowledge at 0.01 level (Confident level:-99%), There is a significant relationship between Personal Finance Management Behaviour and Financial Attitudes at 0.01 level (Confident level :-99%) and There is a significant relationship between Personal Finance Management Behaviour and Locus of Control at 0.05 level (Confident level :-95%). According to Pearson correlation values, the status of the relationships can be expressed as follows. (See table 5)

Table 5 Status of Correlation

| Dependent Variable          | Independent Variable | Pearson Correlation | Status of the relationship |
|-----------------------------|----------------------|---------------------|----------------------------|
| Personal Finance Management | Financial knowledge  | 0.36                | Weak                       |
| Personal Finance Management | Financial Attitudes  | 0.34                | Weak                       |
| Personal Finance Management | Locus of Control     | -0.156              | Weak                       |

Figures of table 05 disclose that there is a weak positive relationship between Personal Finance Management Behaviour and Financial knowledge. And relationship between Personal Finance Management Behaviour and Financial Attitudes is also weak Positive. But relationship between Personal Finance Management Behaviour and Locus of Control is weak Negative.

Table 6 Model Summaries

| Model   | Predictors (b)           | R                 | R square | Adjusted R square | Estimated error |
|---|--------------------------|-------------------|----------|-------------------|-----------------|
| 1   | Financial Knowledge (FK) | .500 <sup>a</sup> | .250     | .063              | 1.81086         |
| 2   | Financial Attitudes (FA) | .484 <sup>a</sup> | .235     | .043              | 1.82999         |
| 3   | Locus of Control (LC)    | .284 <sup>a</sup> | .081     | -.149             | 2.00540         |
| 4   | FK, FA, LC               | .858 <sup>a</sup> | .736     | .638              | 1.07389         |
| a. Dependent Variable: - Personal Finance Management Behavior |                          |                   |          |                   |                 |

Table 6 shows the regression analysis results of the model 01, 02 03 and 04. According to R<sup>2</sup> Value of model 01 (R<sup>2</sup>=0.25), impact of Financial knowledge towards Personal Finance Management is 25%. R<sup>2</sup> value of model 02 is 0.235. That means Financial Attitudes impact towards Personal finance behaviour by 23.5%. And R<sup>2</sup> value of model 03 is 0.081. It reveals that impact of Locus of Control towards Personal Finance Management Behaviour is 8.1%. The model 04 shows impact of all three independent variables towards Personal Finance Management Behaviour statistically. R<sup>2</sup> value of model 04 is 0.736. It refers impact of Financial Knowledge, Financial Attitudes and Locus of Control towards Personal Finance Management Behaviours is 73.6%. On the other hand, impact of other factors which have not been considered in this study towards personal finance management behaviour is around 26.7%. It means that 73.6% of variances of Personal Finance Management Behaviour explained by the Financial Knowledge, Financial Attitudes and Locus of Control. According to the Adjusted R square value of model 04, there is a strong impact between independent and dependent variables. And also, these results imply that these models are appropriate to show the relationship between independent variables and dependent variable.

## CONCLUSION

This study investigates the relationships among financial attitudes, financial knowledge, locus of control and personal financial management behaviours in the sample of 180 government employees in Sri Lanka. According to Pearson correlation analysis, financial attitudes and financial knowledge positively relate to personal financial management behaviour besides locus of control negatively relates to personal financial management behaviour. Result of regression analysis indicates that financial attitudes, financial knowledge and locus of control play important roles in explaining financial management behaviour (explain 73.6% of variance of financial management behaviour).

Findings of this study disclose that the people who possess good financial knowledge and financial attitudes may also have good personal finance management behaviour. It has been proved by the researchers using a sample of government employees in Kegalle and Anuradhapura districts. Furthermore, this study has been proved that, Locus of control may negatively affect to the personal finance management behaviour of a person.

These findings will helpful for further studies related to personal finance management and institutions which are interested in developing personal financial management in developing countries like Sri Lanka, which is trying to achieve good economic development, the public should have a good personal finance management behaviour. Thus, people can manage their income and can invest or save more. Specially government employees should manage their income. This study proves that people who are

having a good finance knowledge and finance attitudes are managing their finance properly. But in Sri Lankan context, in Primary/ Secondary and the Higher education levels these areas (Personal Finance Management) are not covered well. If these areas can be covered at the school level, when students start to earn, they may have an idea how to manage finance, what can they do for additional funds and what are the investment sources available, etc. Then automatically, financial knowledge and financial attitudes of public will be improved. As a result, public will have a good personal finance management behaviour. It will affect to the economic condition of our country.

This study will fulfil the existing research gap in the area of personal financial management in Sri Lankan context up to some extent. It is not only for the government employees but also for all the public, personal finance management is relevant. And also, some other factors can be affected to personal finance management behaviour of a person. And the respondents of this study possess reasonable educational qualifications (Master/Bachelor Degree holders and Higher National Diploma holders). It also can be a reason for these findings. Therefore, this can be studied more using different samples and different variables.

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