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## Toward a Framework of Financial Wellness Determinants: Investigating the Moderating Effect of Religion

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### ABSTRACT

Financial wellness and its impact on personal and family life satisfaction have received considerable attention from research scholars, financial counselors and even family economics in recent decades. A large number of studies have attempted to identify the factors that significantly predict financial wellness among various groups in relation to the development of personal financial wellness. In order to determine the main determinant of financial wellness, several factors were considered including money attitude, financial socialization, secondary socialization agent influence, primary socialization agent influence, financial knowledge, financial management and financial problem. The purpose of this paper is to investigate the moderating effect of religion in predicting financial wellness. For this purpose, data was gathered from public and private university students throughout Malaysia. The findings of this study verify that religion has a moderating effect on financial wellness. The results further reveal that there are differences between Muslim and Non-Muslim students with regard to financial matters and practices, which in sum results reveal the greater effect of secondary socialization agents on Non-Muslim students, while for Muslim students, the effect of their financial knowledge and primary socialization agents, including parents and religion is greater. Considering the crucial role of parents in the socialization of their children in financial matters, the implication of this finding becomes even more obvious for family economics and financial educators

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## INTRODUCTION

Satisfaction with personal financial affairs is an important component contributing to life satisfaction. Thus, financial wellness and its impact on personal and family life satisfaction have received considerable attention from research scholars, financial counselors and even family economics in recent decades. A large number of studies have attempted to identify the factors that predict significantly financial wellness among various groups in relation to the development of personal financial wellness. A number of factors have been found to influence financial wellness. Among the most common factors are demographic and socioeconomic characteristics such as gender, ethnicity, age, income, education, marital status and home ownership (Hira & Mugenda, 1999a; Hira & Mugenda, 1999b; Joo, 1998). However, there are other factors such as financial knowledge, financial behavior, financial problem and financial stress that might have direct and indirect effects on one's financial wellness (Lown, 1992; Joo & Grable, 2000; Mirowsky & Ross; 2003).

In order to determine the main determinant of financial wellness, several factors were considered including money attitude, financial socialization, secondary socialization agent influence, primary socialization agent influence, financial knowledge, financial management and financial problem. While Malaysia is a multi-ethnic, multi-religious country, Islam is the predominant religion. Statistics for 2010 showed that Muslims numbered approximately 61.4% or 17 million of the population. This study thus aims to examine the moderating effect of religion in predicting financial wellness. For this purpose, data was gathered from public and private university students throughout Malaysia.

Religion is an important cultural factor to study because it is one of the most universal and influential social institutions that have significant influence on people's attitudes, values, and behaviors at both the individual and societal levels (Shweder, 1991). Mokhlis (2009) asserted that religious values and beliefs are known to affect

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human behavior ritualistically and symbolically. Studies have found that the association between religion and individual well-being is substantial (Inglehart, 2010; Myers, 2000). More recently, Sabri, Cook and Gudmunson (2012) found that financial well-being can be improved or increased through social institutions such as mosques and churches. However, little research has examined the effect of religion specifically on financial behavior, financial literacy and financial well-being specifically among university students.

## MATERIALS AND METHODS

### *Participants:*

A multi-stage sampling technique was used to make a random selection of students from six public and five private universities from across Malaysia to comprise the study sample. A random selection of six public and five private universities was made from a list of all universities in Malaysia while 350 students were also selected randomly from each of the 11 universities from a list of names provided by the student affairs office. A self-administered questionnaire was used to gather the data. 3,850 questionnaires were distributed to the 11 universities, out of which 2,519 were completed and could be utilized. These yielded a 65% response rate. A Byrne (2009) approach was used to examine the moderating effect of religion on the relationship between the present study variables. In determining the sample size, this mentioned Bentler and Chou's (1987) recommendation that when the ratio of 5–10 participants per estimated parameter rule is used to calculate the sample size, the statistical indices can perform adequately and the results of structural equation modeling (SEM) can produce meaningful and interpretable values. Consistent with this rule and an approximately 70% response rate, the sample size of this study was 400. As such, to improve the accuracy of the model, SPSS software was used to randomly obtain a sample of 461 respondents from the original sample.

### *Measurements:*

*Financial wellness:* The 6-item financial well-being instrument introduced by Lown and Ju (1992) and Hira and Mugenda (1999b) was employed in measuring financial well-being. In this respect, respondents were requested to make a subjective evaluation of major areas of financial concerns comprising six measurement items comprising "amount of saving", "financial management skills" and "current financial situation", "ability to meet wants", "saving for emergency needs" and "affordability to spend". In measuring the perceived financial well-being subjectively, a self-anchoring ladder first developed by Cantril (1965), and used by Porter and Garman (1993) was utilized, with 1 referring to being dissatisfied and 10 referring to being satisfied.

*Financial knowledge:* Financial knowledge was measured by testing for correct answers to 25 questions concerning financial goals, financial records, savings, investments, retirement, banking systems, time value of money, wills, insurance, education loans, and general knowledge of personal finance. Since the measurement was a kind of test, the construct contributed to the model as an observed variable.

*Financial socialization:* A 10-item instrument derived from Hira's (1997) instrument was adapted to the Malaysian context in the measuring of this construct. To measure this instrument, respondents had to select the age at which they began to carry out each statement. The score answer ranged from "<7 years old", "7-12 years old", "13-15 years old", "16-17 years old", ">18 years old" and "Never". The score of statements from one to six items was added up to obtain the financial socialization score. The highest score (6) was for the earliest age (< 7 years old) while the lowest score (1) was for "Never". Six items were removed to improve the fitness of the construct.

*Primary and secondary socialization agents:* The measurement for this construct was taken from the studies of Hira (1997) and John (1999). The instrument included 11 items, in which peer group, mass media, magazine, advertisements, the Internet, and mobile phones were considered secondary financial socialization agents. Primary socialization agents comprised father, mother, siblings, religion and school. To assess the influence of each item, respondents were required to rate the eleven items on a scale from 1 (no influence) to 10 (the most influence). The scores for the primary and the secondary socialization agents were computed by summing the scores of statements from one to ten for 11 items. A higher score for each dimension indicates a higher level of influence by the respective socialization agent. Furthermore, to enhance the fitting of the construct, one item was dropped from the primary socialization agents and two items were dropped from the secondary socialization agents.

*Money Attitude:* For the purpose of this study, six dimensions of Furnham's Money Beliefs and Behavior Scale (MBBS) were used to measure money attitude after adaptation to the Malaysian context. Although Furnham's (1984) scale involves six dimensions i.e. obsession, power/prestige, retention, security, inadequacy/anxiety, and effort/ability, the self-gratification dimension was substituted with the effort/ability dimension after the factor analysis. Six dimensions with 19-items on a four-point Likert scale comprised the money attitude scale. This ranged from 1 "strongly agree" to 4 "strongly disagree". The security dimension was excluded to enhance the fitting of the model, resulting in the measurement of only five dimensions, which were

all negative. As such, a higher score for the items denoted a greater negative attitude of the respondents towards money.

*Financial management:* To measure financial management, two main dimensions including savings and spending behavior were considered. To measure spending behavior, an instrument that included 11 items requiring students to confirm using a Yes or No scale as to whether they spent their money on those items was developed. Items included were mobile phone, Internet café, and entertainment, among others. Spending behavior was computed by summing the items determined by students. To measure saving behavior, three items were adapted from the instruments of Hilgert and Hogart (2003) and two items were added to measure savings behavior based on the Malaysian context. The instrument included 5-items such as “have own savings account”, “saving times within six months”, “saving for long term”. Financial management was measured by summing spending and savings behavior; a higher score indicated greater financial management and a low score indicated risky financial management. Financial management was entered into the model as an observed variable.

*Financial problem:* 10 items were involved in the instrument used in this study in measuring financial problem. In establishing what forms of financial counseling students seeking financial counseling needed, a list used by the Financial Counseling Clinic at Iowa State University was used to obtain the problems listed, after being adapted to the Malaysian context. Respondents had to rate the experience of the listed problems on a five-point Likert scale ranging from Never (1) to Every day (5). Five items were excluded to enhance the fitness of the construct.

## RESULTS AND DISCUSSION

The goodness of-fit indices denote a good practical support of the theoretical framework as they show the acceptable range for a good model fit. In addition, an assessment was made of the moderating effects of religion on the connection between financial socialization, secondary socialization agents, money attitude, financial management, financial problems and financial wellness. The multi-group approach was employed in assessing the moderating effect of religion on the research model. The data in this study was categorized as Muslims and Non-Muslims and the model was tested separately for each category. The multi-group moderation procedure establishes whether the relationships hypothesized in a model would vary based on the value of the moderator. The results for subsamples were separately provided by the multi-group analysis and the differences were determined using the critical ratio criteria ( $> \pm 1.96$ ). This section presents separate results for Muslims and Non-Muslims.

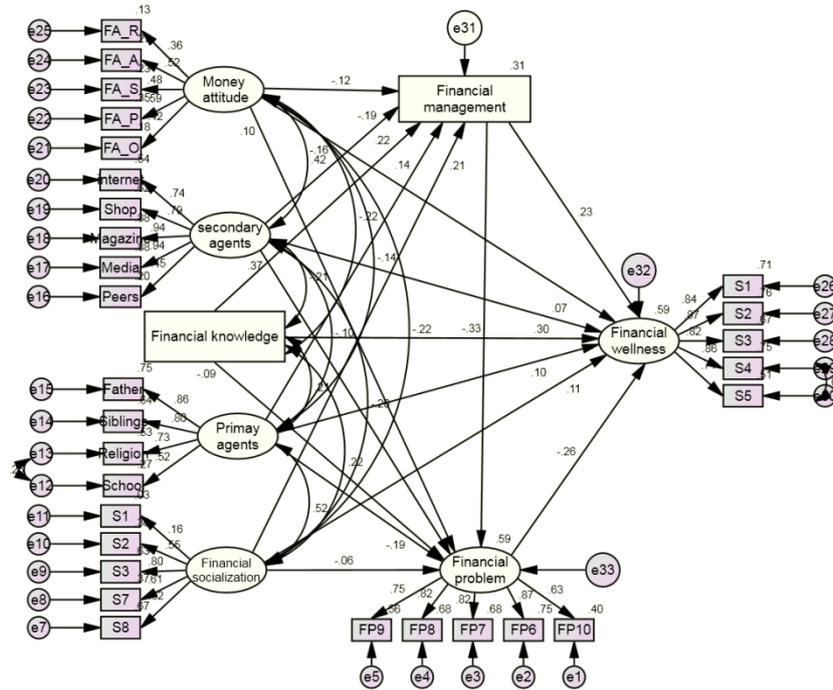
**Table 1:** The Results of Path Coefficients among Muslim students.

Items	Estimate	S.E.	Std. Regression	C.R.	P
Primary socialization agents → Financial Management	.345	.133	.140	2.596	.000
Secondary socialization agents → Financial Management	-.577	.155	-.188	-3.731	.000
Financial knowledge → Financial Management	.112	.021	.221	5.326	.000
Financial socialization → Financial Management	.688	.179	.212	3.834	.000
Secondary socialization agents → Financial problem	.372	.056	.371	6.697	.000
Primary socialization agents → Financial problem	-.151	.040	-.186	-3.795	.000
Financial Knowledge → Financial problem	-.015	.006	-.091	-2.430	.015
Financial management → Financial problem	-.109	.014	-.332	-7.723	.000
Financial Knowledge → Financial Wellness	.090	.011	.297	7.916	.000
Financial socialization → Financial Wellness	.205	.093	.106	2.195	.028
Primary socialization agents → Financial Wellness	.149	.071	.102	2.117	.030
Money attitude → Financial Wellness	-.300	.102	-.165	-2.938	.003
Financial management → Financial Wellness	.136	.027	.228	5.009	.000
Financial problem → Financial Wellness	-.467	.110	-.258	-4.244	.000

### *Muslim Students:*

Table 1 presents results that reveal the significant connection between financial socialization ( $b = .106$ ,  $CR = 2.195$ ,  $P < .05$ ), primary socialization agents ( $b = .102$ ,  $CR = 2.117$ ,  $P < .05$ ), financial knowledge ( $b = .297$ ,  $CR = 7.916$ ,  $P < .05$ ), money attitude ( $b = -.165$ ,  $CR = -2.93$ ,  $P < .05$ ), financial management ( $b = .228$ ,  $CR = 5.009$ ,  $P < .05$ ) and financial problem ( $b = -.258$ ,  $CR = -4.244$ ,  $P < .05$ ) and financial wellness among Muslim students. For Muslim students, financial knowledge is the key contributor in determining financial wellness, as indicated by the path of coefficients (Figure 1). In addition to this, the findings reveal the influence of four factors, secondary socialization agents ( $b = .371$ ,  $CR = 6.69$ ,  $P < .05$ ), primary socialization agents ( $b = -.186$ ,  $CR = -3.795$ ,  $P < .05$ ), financial knowledge ( $b = -.091$ ,  $CR = -2.43$ ,  $P < .05$ ) and financial management ( $b = -.258$ ,  $CR = -4.244$ ,  $P < .05$ ) in predicting financial problem among Muslim students. The evaluation of path coefficients points to financial knowledge as the major determinant of financial problem. This means that those with a greater level of financial knowledge experience a reduced level of financial problem. As such, the experience of financial problems is averted by students who have financial knowledge (Figure 1). Lastly, the assessment of path

coefficients to predict financial management demonstrates that financial knowledge has the greatest effect on envisaging financial management (b= .221, CR= 5.32, P<.05).



**Fig. 1:** Factors Predicting Financial Wellness among Muslim Students.

**Non-Muslim Students:**

Collectively, financial knowledge (b= .201, CR= 3.4, P<.05), secondary socialization agents (b= .382, CR= 4.344, P<.05), primary socialization agents (b= .245, CR= 3.39, P<.05), financial management (b= .151, CR=2.21, P<.05) and financial problem (b= -.51, CR= -5.29, P<.05) are significant in predicting financial wellness among Non-Muslim students (Table 3). This is demonstrated by the assessment of the of the path coefficients among Non-Muslim students. The results also show that a key factor in determining financial wellness among Non-Muslim students is financial problem. The assessment of findings further indicates that the significant determinants of experiencing financial problem among Non-Muslim students are secondary socialization agents. Secondary socialization agents are significant determinants of financial management among Non-Muslim students as indicated by the assessment of path coefficients of financial management predictors (Table 2).

**Table 2:** The Results of Path Coefficients among Non-Muslim students.

Items	Estimate	S.E.	Std. Regression	C.R.	P
Money attitude →Financial Management	-.475	.203	-.176	-2.338	.019
Secondary socialization agents →Financial Management	-.436	.128	-.247	-3.411	.000
Financial knowledge →Financial Management	.084	.030	.172	2.779	.005
Financial socialization →Financial Management	.575	.218	.185	2.634	.008
Secondary socialization agents → Financial problem	.317	.048	.483	6.634	.000
Financial Knowledge → Financial problem	-.024	.010	-.131	-2.472	.015
Financial management → Financial problem	-.114	.022	-.306	-5.266	.025
Financial Knowledge → Financial Wellness	.058	.017	.201	3.402	.000
Secondary socialization agents → Financial Wellness	.397	.091	.382	4.344	.028
Primary socialization agents → Financial Wellness	.301	.089	.245	3.397	.030
Financial management → Financial Wellness	.089	.040	.151	2.217	.027
Financial problem → Financial Wellness	-.809	.153	-.510	-5.298	.000

**Test of the Moderating Hypotheses:**

To assess the moderating effects of religion, a multi-group analysis was performed. For this, the sample was categorized into two groups, Muslims and Non-Muslims. An estimate was made of the statistics of Z score on the assumed relationship and this was compared across the two groups, Muslims and Non-Muslims. The statistically significant differences indicated in the results of the comparison of the latent relationship estimates across the groups are as follows:

Hypothesis 1- *Regression of financial socialization, primary and secondary socialization agents, money attitude, financial knowledge and financial management on financial wellness:*

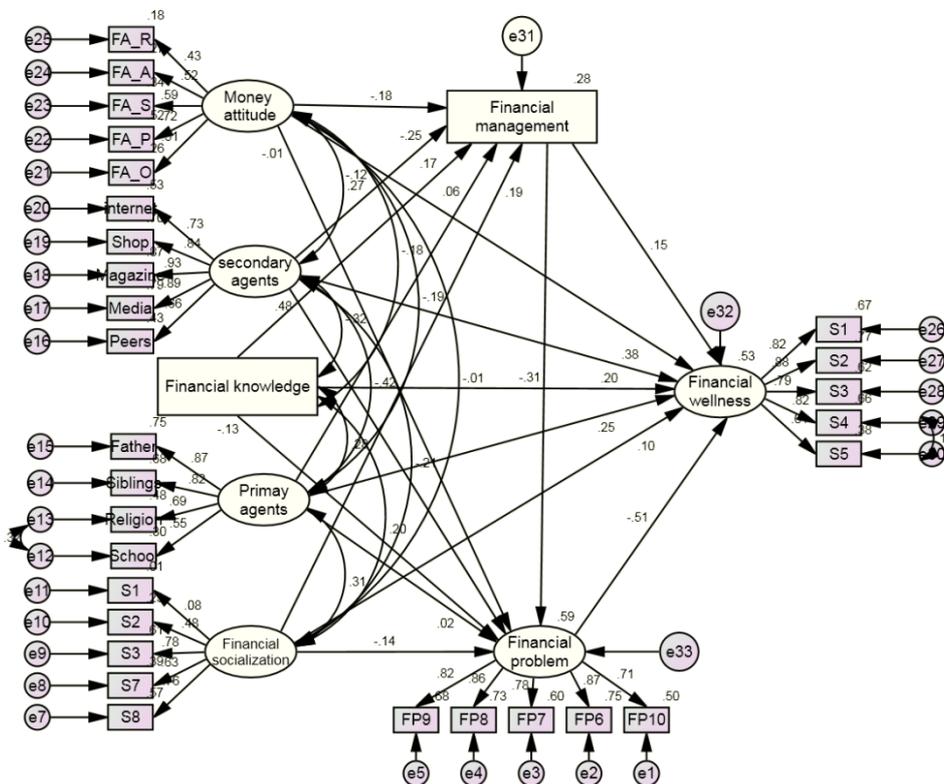
Results indicate that among Muslim students, secondary socialization agents do not affect financial wellness but they have significant effect on non-Muslim students ( $Z = 4.66$ ). Additionally, results show the greater impact of the estimate of financial knowledge on the level of financial wellness among Muslim students than among Non-Muslim students ( $z = 1.99$ ).

Hypothesis 2- *Regression of financial socialization, primary and secondary socialization agents, money attitude, financial knowledge and financial management on financial problem:*

Findings indicate that primary socialization agents including parents, family and religion have significant effect on reducing the level of financial problem among Muslim students while this factors is not significantly related to financial problem among Non-Muslim students ( $Z = 2.407$ ).

Hypothesis 3- *Regression of financial socialization, primary and secondary socialization agents, money attitude, financial knowledge and financial management on financial management:*

Results indicate that financial knowledge has greater effect on improving financial management among Muslim students than among Non-Muslim students ( $Z = 3.57$ )



**Fig. 2:** Factors Predicting Financial Wellness among Non-Muslim Students.

### Conclusions and Implications:

The findings of this study verify that religion has a moderating effect on financial wellness. The results further reveal that there are differences between Muslim and Non-Muslim students with regard to financial matters and practices, which in sum results reveal the greater effect of secondary socialization agents on Non-Muslim students, while for Muslim students, the effect of their financial knowledge and primary socialization agents, including parents and religion is greater. Assessment of the findings reveal that in the case of Non-Muslim students, while secondary socialization agents have a positive effect with regard to experiencing financial problem, they have a negative effect on money management. The findings further reveal that religion moderates markedly the effect of financial knowledge on financial wellness among Muslim students. These findings indicate that financial knowledge has a bigger effect on the enhancement of financial wellness among Muslim students than on Non-Muslim students. As regards financial problem, the results confirm the moderating effect of religion in that while primary socialization agents including parents and religion prevent Muslim students from being involved in risky financial behaviors and experiencing financial problem, this is not a contributory factor among Non-Muslim students. In addition, in the case of Muslim students, the impact of financial knowledge on the improvement of financial management is greater as compared to Non-Muslim

students. Overall, the results indicate the greater effect of secondary socialization agents on financial issues in the case of Non-Muslim students. However, as for Muslim students, the effect of family, religion and their financial knowledge of financial practices is greater. That socialization agents and the process of socialization play a significant role in influencing financial matters among the students is emphasized by the effect of socialization agents. Further, the findings of this study verify that there may be a connection between the dissimilarities in religion and family culture that are learned during childhood and the differences in financial behavior. Considering the crucial role of parents in the socialization of their children in financial matters, the implication of this finding becomes even more obvious for family economics and financial educators. Non-Muslim students experience a greater level of financial problems due to the influence of peers, the media and the Internet on their financial behavior. In view of this, there arises the need for several educational and training programs to raise students' awareness level concerning financial management. There is no denying that financial knowledge and information are the essential foundations in developing financial beliefs and attitudes that precede financial behavior. That peers and the media affect the financial behavior of Non-Muslim students may be due to their inadequate financial knowledge and inexperience. Moreover, after the family, the school is the main formal socializing agent for the young. It follows then, that it becomes extremely necessary that schools offer programs imparting financial skills to students to enable them to manage effectively their financial resources. In addition to financial skills, these programs can include career planning guidance and instill in students a clear understanding that because positive behaviors and habits acquired in school are transmitted into other facets of their lives, they can be beneficial in helping them plan their education and manage their relationships with others.

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