



**UNIVERSITI PUTRA MALAYSIA**

***FACTORS PREDICTING FINANCIAL WELL-BEING OF  
GOVERNMENT EMPLOYEES IN SELECTED STATES  
IN MALAYSIA***

***NOOR DIYANA BINTI FAZAN AHMAD***

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**By**

**NOOR DIYANA BINTI FAZAN AHMAD**

**Thesis submitted to the School of Graduate Studies, Universiti Putra Malaysia,  
in Fulfilment of the Requirements for the Degree of Master of Science**

**July 2014**

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Abstract of thesis presented to the Senate of Universiti Putra Malaysia in fulfilment  
of the requirement for the degree of Master of Science

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**July 2014**

**Chair: Husniyah Abd. Rahim @ Abdul Wahab, PhD**

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Financial well-being is an important aspect of overall well-being as it determines how financially stable or satisfied a working individual is in their current situation. There are many factors that can predict the likelihood of a high level of financial well-being and several of the factors based on past research were focused in this study. These factors consist of the resources available currently and how it will be implemented to predict either a high or low level of financial well-being. Thus, the aim of this study is to determine the strongest predictor of government employees' financial well-being. Among the factors are socio-economic factors such as income level, gender, age, education level and strata as well as financial problems, locus of control and dimensions of financial management practices which includes cash-flow, savings, credit management and risk management. To determine the sampling areas, the multi-stage random sampling method is used and the states selected were Pahang, Kelantan, Johor, Melaka and Negeri Sembilan. Each state was categorized into urban and rural areas. Lists of government departments were obtained for each urban and rural area of the selected states departments in the second stage of sampling. Before the distribution of the questionnaires, permissions were obtained from the selected departments and a total of 472 usable questionnaires were collected. Statistical Package for Social Sciences (SPSS) was used to analyse the data for this research and the tests used were Pearson Correlation, t-Test analysis, Chi-Square Analysis and Logistic Regression analysis. Results from this study showed that the most significant factor in predicting the likelihood of high level of financial well-being was credit management. Following this, the other significant predictors of financial well-being were income, locus of control, education and financial problems. Therefore, several steps should be taken by the government, educators, relevant agencies and government employees to ensure a higher level of financial well-being. Steps that should be taken such as providing opportunities for government employees to increase their income and encourage good financial management practice. Financial management practices especially in terms of credit management from an early age through education should be encouraged, to ensure a high level of financial well-being among government employees in Malaysia.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia  
sebagai memenuhi keperluan untuk Ijazah Sarjana Sains

**FAKTOR YANG MERAMALKAN KESEJAHTERAAN KEWANGAN  
PENJAWAT AWAM DI NEGERI TERPILIH DI MALAYSIA**

Oleh

**NOOR DIYANA BINTI FAZAN AHMAD**

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Kesejahteraan kewangan adalah satu aspek penting dalam kesejahteraan secara keseluruhan kerana ia menentukan tahap kestabilan kewangan atau kepuasan individu bekerja dalam keadaan semasa mereka. Terdapat banyak faktor yang boleh meramalkan kemungkinan kesejahteraan kewangan yang tinggi dan beberapa faktor berdasarkan kajian yang lalu telah diberi tumpuan dalam kajian ini. Faktor-faktor ini terdiri daripada sumber semasa dan pelaksanaannya yang boleh meramalkan tahap kesejahteraan kewangan. Oleh itu, tujuan kajian ini adalah untuk menentukan peramal yang terkuat dalam menentukan kesejahteraan kewangan penjawat awam. Antara faktor-faktor yang dikaji adalah faktor sosio-ekonomi seperti tahap pendapatan, jantina, umur, tahap pendidikan dan strata serta masalah kewangan, lokus kawalan dan dimensi amalan pengurusan kewangan yang merangkumi aliran tunai, simpanan, pengurusan kredit dan pengurusan risiko. Penentuan kawasan persampelan menggunakan kaedah *Multi-Stage Random Sampling* dan negeri-negeri yang dipilih adalah Pahang, Kelantan, Johor, Melaka dan Negeri Sembilan. Setiap negeri dikategorikan mengikut kawasan bandar dan luar bandar. Senarai jabatan-jabatan kerajaan telah diperolehi untuk setiap kawasan bandar dan luar bandar mengikut setiap negeri yang dipilih untuk peringkat kedua persampelan. Sebelum pengagihan soal selidik, kebenaran daripada pegawai perhubungan setiap jabatan terpilih telah dihubungi dan sebanyak 472 borang soal selidik telah dikumpulkan. *Statistical Package for Social Sciences* (SPSS) telah digunakan untuk menganalisis data bagi kajian ini dan ujian yang telah digunakan adalah korelasi *Pearson*, analisis ujian-t, analisis *Chi-Square* dan analisis regresi logistik. Hasil daripada kajian ini menunjukkan bahawa faktor yang paling penting dalam meramalkan kemungkinan tahap kewangan kesejahteraan yang tinggi adalah pengurusan kredit. Terdapat faktor lain yang meramalkan kesejahteraan kewangan selepas pengurusan kredit iaitu pendapatan, lokus kawalan, pendidikan dan masalah kewangan. Oleh itu, beberapa langkah perlu diambil oleh kerajaan, pendidik, agensi-agensi berkaitan dan penjawat awam untuk memastikan tahap kewangan kesejahteraan yang lebih tinggi. Langkah-langkah yang boleh diambil adalah menyediakan peluang kepada penjawat awam untuk meningkatkan pendapatan

serta menggalakkan amalan pengurusan kewangan yang baik. Amalan pengurusan kewangan terutamanya dari segi pengurusan kredit perlu dipupuk dan diterapkan sejak kecil melalui pendidikan supaya mendapat tahap kesejahteraan kewangan yang tinggi.



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This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Master of Science. The members of the Supervisory Committee were as follows:

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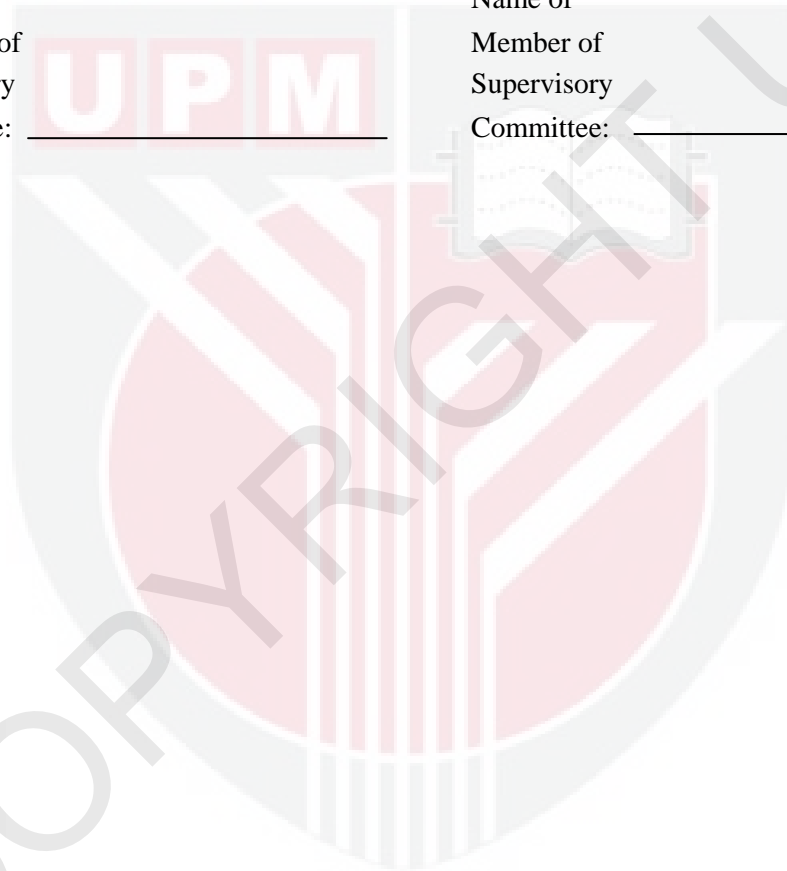
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# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

The moment an individual starts working and receive their permanent income, so does their responsibilities. With the available income and resources, a working individual has to fulfil their short-term and long-term goals and to achieve the goals credit or savings will be used. How a person defines financial well-being is very subjective and it depends on their current financial situation. A stable financial situation is important to ensure government employees have a healthy financial well-being.

Well-being in general is a state of being healthy, happy and free from want as suggested by Zimmerman (1995) as cited in Joo (2008). Well-being has a wide range of aspects and is usually viewed as a subjective concept. Subjective well-being refers to how people evaluate their lives and variables such as lack of depression, anxiety, marital and life satisfaction, as well as positive emotions and moods (Diener, Oishi, and Lucas, 2003).

According to Fletcher and Lorenz (1985), subjective well-being has several domains such as job, house, health, leisure, finances, and environmental satisfaction, however the main focus for this study is financial well-being. Thus, a person having a good status of financial well-being is someone who has a healthy economic status and free from wants.

There are many aspects of financial well-being which involves either subjective or objective well-being. Satisfaction with level of living was hypothesized to reflect the perception of one's ability to meet financial demands (Joo and Grable, 2004). The concept of financial well-being can be adapted from the overall concept of well-being. Financial well-being is how an individual perceive their current state of financial status and how happy they are with it. Since self-reported well-being is normally seen as a subjective concept, the same can be applied to financial well-being.

Financial well-being is usually used interchangeably with financial satisfaction as well as financial wellness. Individuals that are satisfied with their current financial state and those with a better financial attitude and a healthy financial behaviour are said to have a positive financial well-being. Generally, financial status is always correlated to a high income; however, a higher income doesn't necessarily ensure a better financial well-being as suggested by Delafrooz and Laily (2011) that even while facing financial problems, a person can be financially satisfied. Nonetheless, most past studies show a strong and positive relationship between income and



financial well-being. A broader aspect and details of financial well-being is further explained in Chapter Two.

Therefore to achieve a good level of financial well-being, several measures should be taken by employees. To prepare for life changing events that can occur such as marriage, welcoming a child and preparing a child's education and future, careful financial planning and practice is required to avoid financial problems. To manage these changes, working individuals will use their savings or apply for credit. However, there are several circumstances where savings alone is not enough, thus credit is taken using either a short-term or a long-term loan. Short-term loans are required when purchasing goods and can be repaid in a year or less whereas a long-term loan is usually needed when purchasing a car or a house as the amount is very large. Besides that, current situations such as the increase in price of goods and services can also affect their current financial plan. Thus, it is important that working individuals manage their finances well to achieve a good level of financial well-being.

## **1.2 Problem Statement**

In Malaysia, there are 1,030,238 government employees according to Public Service Department of Malaysia as of 2010. At that point of time, majority of the employees are in the support group at 71.8%, followed by management and professional group at 27.9% and the least is the higher management at 0.3%. These statistics show that since most of the employees are supporting staffs, their income range is from the lowest to middle income group. Past studies have also shown that youths working in the government sector had an average monthly income of RM 2,840 (Zaimah, Sarmila, Azimah, Suhana and Mohd Yusof, 2012). This will have an effect on their financial well-being as their income is in the middle income group. The amount they have may not be sufficient for other financial activities such as saving, investment and risk transfer. These activities are very important as they are practices that can influence the financial well-being of a person.

Recent statistics show that there is a trend of an aging population (Department of Statistics, 2010) as shown in Table 1.1 as well as an increase in Malaysia's life expectancy from 72.76 in 2007 to 73.29 in 2008 (Department of Statistics, 2010). From these statistics, we can see that there will be an increase in the aging population and since the life expectancy has increased, more employees especially in the government sector will have to plan their retirement properly as they have to manage their finances and not just rely on their monthly pension. Mutran, Reitzes and Fernandez (1997) found that a pension scheme gives a positive effect on retirement. Allocation for savings should start early for government employees as they have a longer period before they retire. This could be a result from the increase of retirement age from 58 years old in 2008 to 60 years old in 2013 (CUEPACS, 2013). Consequently, employees will also have the advantage of an extra two years to acquire enough savings and time to invest their money as they will retire at 60 years old. If government employees are not financially stable during the last few years of

their working life, they might face several problems after retirement as income from pension does not ensure a better financial well-being.

**Table 1.1: Age Trend in Malaysia**

<b>Age</b>	<b>2000</b>	<b>2010</b>
< 15 years old	33.3%	27.6%
15 – 64 years old	62.8%	67.3%
> 65 years old	3.9%	5.1%

**Source: Department of Statistics (2010)**

However, if certain government employees opt for Employees Provident Fund (EPF) and not the pension scheme, they might face several problems of having not enough financial security for their retirement. EPF statistics show that on average, active members saving at the age of 54 is RM 149,216.76 as of 2011. Roughly, if a person were to spend on average RM2, 000 a month, their savings can only last for six to seven years, provided they do not overspend. Thus, the EPF fund obtained after retirement is not adequate to sustain life financially especially with the rising inflation (Caraher, 2000; Thillainathan, 2004). However, if a person were to retire at the age of 60 as mentioned earlier, they can have extra time to save for their retirement.

Government employees should also manage their financial management practices well because if they don't then they could face a problem and the worst is bankruptcy. According to Malaysian Department of Insolvency (Mdi) (2012), on average 40 – 60 individuals go bankrupt every day. Also, the highest percentage of bankruptcy within age group is 33.89% which is in the age group between 45 -54 years old, followed by 35 – 44 years old at 29.92% and 55 years and above at 16.67%. These statistics shows that the age group that is most likely to get bankrupt is between 45 years old to 55 years old and above and this is not a good sign as this is the age where savings and other financial practices can help for the retirement of government employees.

As mentioned earlier, majority of the staff in the government sector are the supporting staffs. The highest percentage of bankruptcy among government employees is the supporting staff at 55.44% (Malaysian Department of Insolvency, 2012). This statistics is very alarming as these supporting staffs are in the middle income group, and most of the bankruptcy is caused by car hire purchase loans (49.90%), social guarantor (15.56%), personal loan (8.65%) and housing loan (8.65%). The application for these type of loans have been increasing since the year 2006. The statistics from *Bank Negara Malaysia* on loans is very alarming as the amount has increased for each of the type of loan. As listed in Table 1.2, the highest

among the types of loans are housing followed by car loans, personal loans, credit card and lastly consumer durable goods.

Following this, government employees might face several implications if they are leading towards bankruptcy and have already been declared bankrupt. These implications can affect them during and after their employment. Current government employees who have been declared bankrupt or facing financial problems can be sentenced with a disciplinary action which can influence advancement of position and salary increment (Malaysian Department of Insolvency, 2012). As for those who have retired, they are to lose their privileges to receive pension and other privileges a government receives after retirement. Also, for those who have an EPF account, it can be confiscated once it has been transferred to the pension account. Thus, we can see that, bankruptcy can affect government employees as it is related to their financial management practices and management of their financial problems.

**Table 1.2: Amount of Loans Applied**

<b>Year</b>	<b>Car</b>	<b>Housing</b>	<b>Personal</b>	<b>Credit Card</b>	<b>Consumer Durable Goods</b>
<b>2006</b>	3850.6	3357.4	670.5	1193.6	0.6
<b>2007</b>	3074.2	3963.3	762.8	2178.5	21.7
<b>2008</b>	4278.7	6565.3	1618.9	2348.9	1.7
<b>2009</b>	4367.1	6770.6	1931.3	2652.5	1.6
<b>2010</b>	4408.8	8337.4	1557.7	1316.8	0.9
<b>2011</b>	5493.5	10257.0	2285.2	1575.2	7.4
<b>2012</b>	7430.2	14960.2	2510.4	1233.3	0.5
<b>2013</b>	9624.2	17134.1	2447.4	1859.3	1.7

\*Values are in RM Million; Source: Bank Negara Malaysia (2013)

### **1.3 Research Questions**

Since there are so many factors that can affect the future financial well-being of a government employee, it is important for this study to answer the following questions:

1. What is the level of financial problems, locus of control and financial management practices?
2. What are the relationships between socio-economic factors, financial problems, locus of control and financial management practices with financial management practices?
3. Are there any differences in financial management practices between socio-economic factors?

4. Which factor is the strongest predictor of financial well-being among government employees in Malaysia?

## **1.4 Research Objectives**

The main objective of this study is to determine the strongest predictor of financial well-being among government employees in Malaysia.

### **1.4.1 Specific Objectives**

This study aims:

1. To investigate the level of financial problems, locus of control, and financial management practices of government employees.
2. To investigate the relationships between socio-economic factors (age and education), financial problems, and locus of control with financial management practices dimensions (cash-flow, savings, credit management and risk management).
3. To determine the differences between socio-economic factors (gender, income and strata) based on financial management practices dimensions (cash-flow, savings, credit management and risk management).
4. To determine the likelihood of prediction by socio-economic factors, financial problems locus of control and financial management practices on financial well-being levels.

## **1.5 Significance of Research**

This study can give several benefits to parties that can be involved in the government employee financial situation either directly or indirectly. Among those that can benefit from this study are the government employees, related agencies and to the field of study.

### **1.5.1 Significance to Government Employees**

The current financial status of an individual is important to ensure the individual a better state of well-being. Even with a stable income, government employees may not be satisfied with their current financial status, thus it is important for individuals to acquire knowledge on what impacts their financial well-being. It has been known that government employees are moderately satisfied with their financial state and only a small amount is very satisfied (Zaimah et al., 2012).

Government sector employees can have a chance to improve their financial well-being through a better understanding of their behaviour related to their personal

finance acquired from this study and can gain knowledge as to what is the most common mistake done. Some of the government employees may have their own way of managing their finances but these can vary according to their current situation and any unexpected changes in their lives which can affect their finances because needs can change according to the current situation. These changes includes marriage, welcoming a child into the family and planning for their children's future. Thus, findings from this study can help them determine what factors can be altered to their situation and make the most of it to ensure a better financial well-being.

### **1.5.2 Significance to Related Agencies**

However, some individuals may have to rely on agencies to help them with their financial planning especially if they are already facing financial problems and have a very low financial well-being. Agencies that are involved such as Credit Counselling and Debt Management Agency (AKPK) can benefit from this study as they can identify the factors that affect financial well-being. They can develop programs or even modify their current programs to suit the individuals. Predicting factors can be detected by Credit Counselling and Debt Management Agency and they can help improve the individual's financial situation which influences their financial well-being as well as avoid bankruptcy. Results from this study can also help insurance agencies by improving their current products or come out with services that will improve the respondent's well-being.

### **1.5.3 Significance to the Field of Study**

The results from this study can benefit the field of study in the area of financial well-being. This study's main focus is the financial well-being of government employees which is measured by their perceived financial adequacy. Financial adequacy is measured by determining how the individual assesses its adequacy of income to ensure an economic survival (Draughn, LeBoeuf, Wozniak, Lawrence, and Welch, 1994; Joo and Grable, 2004) and it is useful in explaining financial satisfaction as suggested by Grable, Cupples, Fernatt and Anderson (2012). Several studies in Malaysia have used perceived financial adequacy to measure financial well-being (Chan, Laily, Jariah and Aizan, 2010; Jariah and Sharifah, 2014) among the elderly and retirees. Therefore, to fill in the gap, this study measures financial well-being using perceived financial adequacy among government employees in Malaysia.

Apart from the measurement of financial well-being, this study also looks at the relationship between the internal locus of control of government employees with their financial well-being. Since there have only been a few studies that have studied the relationship between the internal locus of control of government employees (Husniyah et. al, 2011) in Malaysia, youths in Turkey (Ozmete, 2007) and among different ethnic of students (Britt, Cumbie, and Bell, 2011), it is important for this study to determine the significance of government employees' internal locus of control.

In terms of financial management practices, this study looks at the relationship between the dimensions of financial management practices which consists of cash-flow practices, savings practices, credit management and risk management. Each of the dimensions are analysed with financial well-being to determine its relationship. The dimensions are also be tested with other factors to determine which is the strongest predictor for financial well-being among government employees.

Apart from that, this study's significance to the field of study is that most past research on financial well-being is done among households, college students, youths and retirees. There have only been a few that has studied among government employees. Therefore, it is important to study these factors and its relationship with financial well-being.

## **1.6 Limitation of Study**

Respondents for this study are the individuals working in the government sector in Malaysia however only states in Peninsular Malaysia has been studied. East Malaysia was not chosen due to limitations in communicating and distribution of questionnaires. The total respondents were collected from five states in Peninsular Malaysia. Apart from that, respondents from this study mostly consist of Malays as they are the majority of government employees in Malaysia. Also, this study is only focused on government employees and not private sector employees. Thus, the results from this study cannot represent all the working individuals in Malaysia but only for government employees in Malaysia. Even though this study cannot represent all the working individuals in Malaysia, it can provide a strategy to increase the financial well-being of employees working in Malaysia regardless from which sector as it provides the strongest predictor in determining one's financial well-being.

## **1.7 Definition of Terminologies**

### **1.7.1 Financial Management Practices**

**Conceptual:** Financial management often relates to a specific financial behaviour such as saving, credit management, budgeting and cash flow management, investing, retirement planning, asset accumulation as well as information search related to financial decisions (Hogarth and Anguelov, 2004).

**Operational:** Financial management practices in this study was measured using five dimensions of financial behaviour consisting of cash-flow management, credit management, savings and risk management practices of the respondents.

### 1.7.2 Financial Problems

**Conceptual:** Financial problem is generally referred as the mismatch between resources and demands financially (Kerkmann, Lee, Lown and Allgood, 2000).

**Operational:** Financial problem is measured using items depicting mismatch of resources and demands such as late payment of loans and unable to afford basic needs were used in this study.

### 1.7.3 Locus of Control

**Conceptual:** Locus of control is defined as how the individual control the events that happen around them by perceiving their ability (Forte, 2005; Sumarwan and Hira, 1993; Rotter, 1966)

**Operational:** Locus of control in this study was measured using items on the internal locus of control related to financial activities such as managing financial matter and getting a good job. Items such as achieving success in activities and getting a good job were also used.

### 1.7.4 Financial Well-Being

**Conceptual:** Financial well-being is the satisfaction of an individual's financial situation (Delafrooz and Laily, 2011). There are three components of satisfaction with financial situation which are financial adequacy, perceived economic well-being and satisfaction with level of living (Joo and Grable, 2004; Draughn et al., 1994). Perceived financial adequacy is the perception of the sufficiency of income to meet expenses (Grable et al., 2012).

**Operational:** Financial well-being in this study was measured using one of the components of financial satisfaction which is financial adequacy. Financial adequacy in this study was measured by how respondents perceive their income to meet their needs. Categories of financial adequacy consists of not enough, enough for basic needs, enough for most things and enough to buy all wants and able to save.

## 1.8 Conclusion

This chapter has discussed the definition of financial well-being and the purpose of this study as well as the significance of this study to several parties and these includes government sector employees and related agencies as well as to the field of study. As for the next chapter, this study looks into each factor that were be examined its relationship with financial well-being as well as theories and research frameworks related to this study. Following Chapter Two is the Methodology for this

study in Chapter Three and in Chapter Four are the results and discussion. As for Chapter Five, it's the summary for this study which includes conclusion, implications and recommendations following the results of this study.





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