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# A Study of the Correlation Between Financial Literacy and Financial Wellbeing among Employees of a Malaysian Manufacturing Firm

Azlineer Sarip[1], Hafizah Abdul Majid[2], Roziana Shaari[3], Irza Hanie Abu Samah[4] and Mohamad Abdillah Royo[5]
[1,3,4,5]Faculty of Social Sciences and Humanities, Universiti Teknologi Malaysia, [2]Ministry of Health Malaysia
Corresponding author: azlineer@utm.my

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**Abstract**
Financial wellbeing has emerged as a compelling issue of discourse among government bodies and researchers. It is frequently acknowledged that people with sufficient financial preparedness are better equipped to overcome financial setbacks, such as bankruptcies, with greater ease. Hence, it is crucial to carry out a quantitative analysis post-pandemic to evaluate if there have been any changes since the previous report. This study included one hundred employees from a manufacturing company. The data were gathered through self-administered questionnaires. The study findings suggest that the employees involved in the research exhibit a moderate level of financial literacy and well-being. There is a moderate positive relationship between financial literacy and financial wellbeing, as shown by the Spearman correlation analysis. Finally, the study suggests using subjective measuring approaches to enhance the understanding of financial literacy and financial wellbeing from an international perspective.
**Keywords**: Financial Literacy, Financial Wellbeing, Youth, Bankruptcy, Salary, Financial Status, Malaysian Youth

## Introduction

The persistent and possibly increasing prevalence of personal bankruptcies among Malaysia's younger population motivated this research. Recent statistics, however, have shown a lower number of young individuals who faced bankruptcy compared to 2017–2021 (Harun and Salehuddin, 2023). Nevertheless, since Malaysia has placed so much emphasis on the youth to contribute to the economic growth of the country Diana-Rose & Zariyawati (2015), it is still significant to study their financial wellbeing.
Financial wellbeing is an individual’s ability to exercise self-control in managing their finances in order to achieve a level of sufficiency and stability in their own and their family's

economies. It encompasses the actions that an individual takes to safeguard himself and his family against the possibility of experiencing economic instability, losing their work, suffering, and falling into poverty. Not only does financial wellbeing encompass personal financial success, but it also encompasses occupational wellbeing, individual productivity, and healthy economic development as a whole (Diener, 2000; Netemeyer et al., 2017). Thus, an individual's financial wellbeing is not confined to only their personal financial success.

Financial literacy is often regarded as having a significant impact on one's financial well-being (Lone and Bhat, 2022; Idris, Krishnan and Azmi, 2013). Pahlevan Sharif et al (2020) argue that people with financial literacy have the ability to make wise decisions that positively impact their financial wellbeing. Hence, it is crucial to evaluate the degree of financial literacy among young employed individuals, particularly considering that only 50 percent of young individuals in Malaysia assert that their income is sufficient to cover their expenses (Sarip et. al., 2022). Riitsalu et al (2023) conducted a comprehensive analysis that included previous studies exploring the relationship between financial literacy and financial wellbeing from several angles. They referenced studies undertaken by Ponchio et al (2019); Utkarsh et al (2020) that found no association between financial literacy and monetary wealth. Riitsalu et al (2023) revealed that a study conducted by Richards et al (2019) found that financial literacy is indirectly linked to individual financial wellness. Given the context and the results of several prior inquiries, the objective of this inquiry is to evaluate the extent of financial literacy and wellbeing among Malaysian youth employees, in addition to examining the correlation between these two categories of variables. Finally, this study ultimately aims to support Goyal and Kumar's (2021) proposal to conduct research on the extent of financial literacy in developing countries.

## Literature Review

### *Financial Literacy*

Financial literacy, as described by Murugiah (2016), encompasses a combination of financial knowledge, awareness, skills, abilities, attitudes, and behaviors that are essential for making wise financial choices. Moore (2003) introduces a study that classifies financial literacy into three interrelated elements: financial knowledge, financial behavior, and financial experience. According to Moore (2003), an individual's level of financial literacy can be anticipated by evaluating their demonstrated financial knowledge, level of financial experience, and positive attitude towards their financial situation.

Without doubt, inadequate financial literacy renders an individual more susceptible to abrupt economic disruptions and facilitates unintentional poor financial decisions (Hung et al., 2009). A thorough understanding of finances is widely acknowledged as essential due to its numerous consequences and influences on various aspects, including how individuals handle their debt (Moore, 2003). According to the findings of Yakoboski et al (2019), those who possess substantial financial literacy are more likely to be able to withstand financial disruptions, save consistently for retirement, and are less prone to being in debt. A study conducted by Sarip et al (2022) shows that personal loan obligations, the exorbitant cost of living, and the need to repay other financial commitments contribute to the accumulation of debt among young individuals in Malaysia. Loke et al (2022) conducted a recent study that revealed that while there was an upward trend in financial literacy among Malaysians from 2015 to 2018, there was a noticeable deterioration in their comprehension of loan interest and the relationship between inflation and living expenses. Therefore, given the numerous studies that have investigated comparable topics, it is imperative to evaluate the degree of financial literacy and determine its relationship with financial wellbeing. This is due to the overwhelming persistence of financial management challenges among youth, which have persisted for a decade.

***Financial Wellbeing***

Economic wellbeing, financial soundness, and financial satisfaction are frequently used interchangeably with the term "financial wellbeing." According to Watson (2017), financial wellbeing is considered a fundamental requirement, alongside other essential needs. Zaimah et al. (2016) define the quality of an individual's financial wellbeing as the extent to which they are satisfied with their personal financial circumstances. Riitsalu et al (2023) offer their perspectives on the conceptualizations of financial wellbeing as seen through the lens of young individuals, which are particularly captivating. Based on their qualitative research, they reached the conclusion that the notion of financial wellbeing among young people is as follows: “Financial wellbeing encompasses the ability to sustain one's present lifestyle while also attaining a desired lifestyle in the future. Additionally, it encompasses the capacity to meet essential financial needs and responsibilities, and ideally, it signifies having the means to acquire any desired item or experience in the future" (Riitsalu et al., 2023, p. 7). Riitsalu et al (2023) argue that passive income, or a steady and substantial income, facilitates consistent savings, enabling financial freedom and a certain lifestyle. This description aligns with the definition of subjective financial wellbeing as presented by (Brüggen et al., 2017). Subjective financial wellbeing is defined as an individual's perception of their ability to sustain their present financial situation as well as their aspiration to achieve a higher standard of living and financial independence.

***Relationship Between Financial Literacy and Financial Wellbeing***

According to Mahdzan et al (2019), financial knowledge is considered a constituent of financial literacy. The terms financial knowledge and literacy are used interchangeably in alternative discussions (Bucher-Koenen et al., 2016; Huston, 2010). Hence, this paper incorporates all prior empirical discoveries encompassing both concepts - financial knowledge and financial literacy. The examination of the correlation between the two variables has been established by numerous researchers, including (Younas et al., 2019; Tang and Baker, 2016; Xiao et al., 2014; Lusardi and Mitchell, 2014). In an empirical study, Younas et al. (2019) conducted a survey of 416 employees from various sectors in Pakistan. The main aim of their study was to determine the impact of self-control and financial literacy on individuals' financial behavior and wellbeing. Their research concludes that financial literacy has a significant and direct impact on financial wellbeing. The findings of research done by Philippas and Avdoulas (2021) among 456 Greek university students demonstrate that people with a greater degree of financial literacy have enhanced competence in managing unexpected financial disruptions. Their research also suggests that possessing financial literacy is an essential element of achieving financial wellbeing. In another study, Ghazali et al (2022) conducted a comprehensive assessment of the literature on financial literacy and financial wellbeing. Their empirical study found that subjective financial knowledge has a significant influence on an individual's financial wellbeing.

While the literature described above indicates a positive correlation, some studies have demonstrated inconsistencies in this relationship. The study conducted by Riitsalu and

Murakas (2019) reveals a positive albeit modest correlation, whereas the research conducted by Mahdzan et al (2019) demonstrates a negative correlation. However, Utkarsh et al (2020) demonstrate that there is no correlational between financial literacy and financial wellbeing. Thus, this study will enhance and supplement the previous studies.

## Methodology
Lusardi (2019) points out that assessing financial literacy is a difficult task. This is especially true when attempting to quantify it through the application of numerical skills, understanding of inflation, and awareness of financial risk. This study defined financial literacy as a combination of knowledge, financial attitude, and financial behavior, as proposed by (Atkinson and Messy, 2011). Thus, the researchers utilized surveys conducted by Lusardi & Mitchell (2011); Prawitz et al (2006) to assess individuals' levels of financial literacy and financial wellbeing. To ensure easy accessibility to the intended population, which comprises individuals working for a manufacturing company in Malaysia, the researchers collected the data for this study through an online survey. The target population consists of individuals aged 19 to 40 years old. According to the 1997 National Youth Development Policy, youth in Malaysia are individuals aged between 15 and 40 years old. This study employed the convenience sampling technique to maximize efficiency and facilitate simple execution (Jager, Putnick, & Bornstein, 2017). Each variable's mean was reported using a descriptive statistic. Pearson's Correlation Analysis was employed to quantify the relationship between two variables.

## Result
Data for this study was efficiently gathered from a sample of one hundred employees who were actively engaged in the industrial sector. The survey results showed that 51% of respondents were single, 47% were married, and 2% were separated. Around 32% of the study participants fell within the age range of 23 to 26. 66% of them have fewer than five years of experience in the workforce. Regarding the demographics, the most fascinating finding is that the proportion of participants earning less than RM1500 (30%) is nearly equal to the proportion of participants earning RM3500 and above (29%).

Table 1 displays the descriptive findings on the level of financial literacy and financial wellbeing. The analysis demonstrates that the respondents in this study possess a moderate level of financial literacy. The moderate mean level of financial knowledge contributes to the pulling factor of a moderate level of financial literacy. The findings also indicate that the respondents possess a moderate level of financial wellbeing.

Table 1
*Summary of descriptive results*

| **Variables** | **Number of Items** | **Mean** | **Level** |
|---|---|---|---|
| Financial Knowledge | 5 | 2.51 | Moderate |
| Financial Attitude | 7 | 3.87 | High |
| Financial Behavior | 7 | 3.86 | High |
| Average Mean Financial Literacy | | 3.41 | Moderate |
| Financial Wellbeing | 12 | 3.43 | Moderate |

Table 2 shows financial literacy have significant relationship with financial wellbeing. Pearson's correlation coefficient however demonstrates a positive but moderate relationship.

Table 2
*Coefficient Correlation between Financial Literacy and Financial Wellbeing*

| | **r** | **Sig.** | **N** |
|---|---|---|---|
| Financial Literacy and Financial Wellbeing | 0.346 | .000 | 100 |

*Correlation is significant at the 0.01 level

**Discussion**
The findings reveal two noteworthy findings: firstly, the respondents in this study exhibit a moderate level of financial literacy; and secondly, the moderate mean of financial knowledge accounts for the moderate mean's pulling force. Contrary to previous findings Garg and Singh (2018), which have pegged global financial literacy at a significant level, this study unveils a moderate level of financial literacy. Certain researchers posit that age and gender are variables that exert an impact on financial literacy. The findings of this research align with those of Lusardi et al (2010); Lusardi and Mitchell (2011); Allgood and Walstad (2013); Jariwala (2013), who have all reached the conclusion that financial literacy is inadequate among young adults. Moreover, these findings align with the conclusions drawn by Yu et al. (2015); Bucher-Koenen et al (2016) regarding the inadequate financial literacy of women, notwithstanding the majority of female respondents in this research. Therefore, a significant recommendation can be made to promote financial literacy through targeted interventions based on gender rather than age. In addition, respondents in this study reported a moderate level of financial wellbeing. Ultimately, the finding aligns with the research carried out by Pahlevan Sharif et al (2020); Limbu and Sato (2019), which postulate that a positive correlation exists between financial literacy and financial wellbeing. Moreover, this finding offers additional validation for the claims put forth by Philippas and Avdoulas (2021) concerning the critical significance of financial literacy in ascertaining the financial wellbeing of an individual.

**Conclusion**
The findings of this study are consistent with the findings of earlier studies Ghazali et al (2022); Philippas and Avdoulas (2021); Riitsalu and Murakas (2019); Younas et al (2019) that have substantiated a correlation between financial literacy and financial wellbeing. While this study makes a valuable contribution to the existing body of knowledge on personal finance in developing countries, it is important to acknowledge its limitations. Future researchers are

encouraged to employ more subjective measurement techniques to gain a more comprehensive understanding of financial literacy and financial wellbeing from an international perspective.

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