

# The Effects of Financial Well-Being among B40 Household Income Group in Malaysia: An Empirical Investigation

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## **Abstract**

**Purpose:** Financial well-being is gained significant attention around the world due to the effect of COVID-19 pandemic. It is one of the elements of well-being and it was explained where an individual can control the financial matter on current life and future life as well without feeling worries on his or her financial situation and it is vital to get better quality of life. Thus, this study aims to analyses the factors that influencing financial well-being among young workers from B40 household income group.

**Design/methodology/approach:** Three variables are tested for this study namely self-control, financial knowledge, and financial capability. The sample for this study consisted of 470 respondents participated in the survey using purposive sampling. The data collected via online form. Multiple regression analysis is employed to analyse the data gathered.

**Findings:** The findings revealed that there was a significant relationship between self-control, financial knowledge and financial capability with financial well-being.

**Research limitations/implications:** Variables suggested for future research include spending behaviour, money management, and socio demographic factors. The study on financial well-being can also be extended into M40 household income group where this group also quite fragile and affected with the economy pressure.

**Practical implications:** The results could be used as guide to related government agencies, financial institutions, and the individual as well in understanding the important of financial well-being to curb from facing financial problem and to have a better quality of life.

**Originality/value:** Factors using are rarely used by the researcher especially for financial well-being specifically for this target group.

**Keywords:** Financial well-being, self-control, financial knowledge, financial capability, B40 household income group

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## **Introduction**

Financial well-being is gained significant attention around the world due to the unforeseen situation which is COVID-19 pandemic crisis. Meanwhile, the increasing of Overnight Policy Rate (OPR) in Malaysia lead to the rising number of bankruptcies among Malaysian people and inflation rate is remained high in 2023 as expected by Bank Negara Malaysia that contribute to the rising cost of living. In line of that, knowing our financial well-being is crucial element in sustaining the quality of life in facing this financial hardship situation. Evidence

show that poor financial well-being can affect physical, mental, and social well-being and then will lead to decreasing in study performance.

The COVID-19 pandemic crisis has also impacted the status of household income groups for certain families. In Malaysia, the household income group is categorised into three income levels, which are bottom 40 (B40), middle 40 (M40), and top 20 (T20). The range of household income level for B40 is from RM4,360 and below, while M40 household income level ranges from RM4,361 to RM9,619, and the household earning for T20 ranges from RM9,620 and above. Malaysia Department of Statistics (2021) reported that 20 percent of households from the income group of M40 had moved to the B40 group, while 12.8 percent of households from the income group of T20 had moved to M40 as a result of COVID-19. This condition indicated that the households with lower income are not the only parties affected by the COVID-19 pandemic crisis. Thus, the knowledge of the financial situation or financial standing is vital in facing unexpected situations.

Financial well-being is one of the elements of well-being and it was explained where an individual can control the financial matter on current life and future life as well without feeling worries on his or her financial situation and it is vital to get better quality of life. Thus, the increasing number of research on financial well-being is conducted among B40 household income group in Malaysia (Magli, et al, 2021; Thinagar, et al, 2021; Mahzan, et al, 2020). B40 household income group are fragile with the fluctuation of economic situation. The RinggitPlus Malaysian Financial Literacy Survey 2021 reported that Malaysian youth are exposed to overspending habit. This group are also often considered a high-risk group when it comes to financial stability. Based on this result, it is indicating there is a room for improvement in determining a good financial well-being.

A number of studies have been conducted in Malaysia and other countries by using numbers of indicators on financial well-being namely financial attitude, financial behavior, financial strain, financial stress, locus of control, and others. However, this study will explore financial well-being determinants and examine the relationship between self-control, financial knowledge, financial capability towards financial well-being among B40 household income group in Malaysia. On top of that, it is important to conduct this study to identify the factors that influence the financial well-being for this household income group.

The following section considers previous studies relevant to financial well-being, while section 3 explains the details of the methodology necessary to attain the study objectives. While section 4 analyses the findings generated from the survey work. In the section 5, a further discussion of the results and study implications are highlighted in order to gain more understanding on determinants of financial well-being, followed by a conclusion.

## **Literature Review**

### **Financial Well-Being**

Understanding financial well-being is one of the critical challenges for an individual and has become a significant concern among researchers. Individuals' financial well-being has been recognised as an important concern to achieve general well-being and societal welfare. In this context, understanding how individuals could ensure a good state of financial well-being is a critical question. Financial well-being is described as a state in which an individual could fully fulfil the current and ongoing obligations or financial commitment and feel secure in their financial future. The four elements of financial well-being include feeling financially in

control, having the ability to experience financial shocks, being on track to achieve financial goals, and having the flexibility to make choices that allow life to be enjoyed. Moreover, financial well-being is reflecting the feeling of satisfaction on the individual or family financial status where they have sufficient resources to live comfortably life.

### **Self-Control and Financial Well-Being**

Self-control is explained as the ability of individuals to control or direct themselves towards a better decision when being pressured by temptation. Baumeister (2002) highlighted that people tend to be confused by conflicts between their actions and feelings although their inner strength increases their self-control. Meanwhile, Fenton-O'Creevy, Dibb, and Furham (2018) explained self-control as a process that individuals use to align themselves with relevant goals. It also occurs when a person or organisation attempts to change how the individual should think, feel, or behave (Muraven and Baumiester, 2000).

A study conducted by Moffitt et al. (2011), which emphasised self-control in the financial aspect, found that people who lacked control over their income would spend more on the current requirements instead of saving more for retirement and other future needs. Meanwhile, people with good self-control would make good financial decisions.

Therefore, the following hypothesis is developed:

H<sub>1</sub>: A positive relationship between self-control and financial well-being among B40 household income group in Malaysia.

### **Financial Knowledge and Financial Well-Being**

Financial knowledge is a crucial element in financial planning and associated with individuals' level of financial wellness. According to Huston (2010), the terms financial knowledge and financial literacy are often applied interchangeably in literature and popular media. This term is also identified as the stock of knowledge acquired through formal education or experience related to the personal financial concept. This statement was supported by Huang, Nam, and Sherraden (2013), who mentioned that financial knowledge denotes individuals' understanding of financial concepts, which is also an indicator of individuals' ability and is commonly used as a measurement or a proxy for financial literacy. Therefore, financial knowledge was employed in this study as the level of individuals' financial knowledge, which also denoted the factor that might influence the individual financials' well-being.

In line with that, those who are having a higher financial knowledge it will lead to higher financial well-being. The study conducted by Mohamed (2017) which is the higher score in the financial knowledge, the better they achieved in financial well-being and a better perception of financial well-being (Falahati and Sabri, 2015). It is supported by Sabri, and Leila (2013) revealed that the more knowledgeable individual in personal finance is likely to achieve financial well-being as compared to those who a received a lower of knowledge.

Therefore, the following hypothesis is developed:

H<sub>2</sub>: A positive relationship between financial knowledge and financial well-being among B40 household income group in Malaysia.

### **Financial Capability and Financial Well-Being**

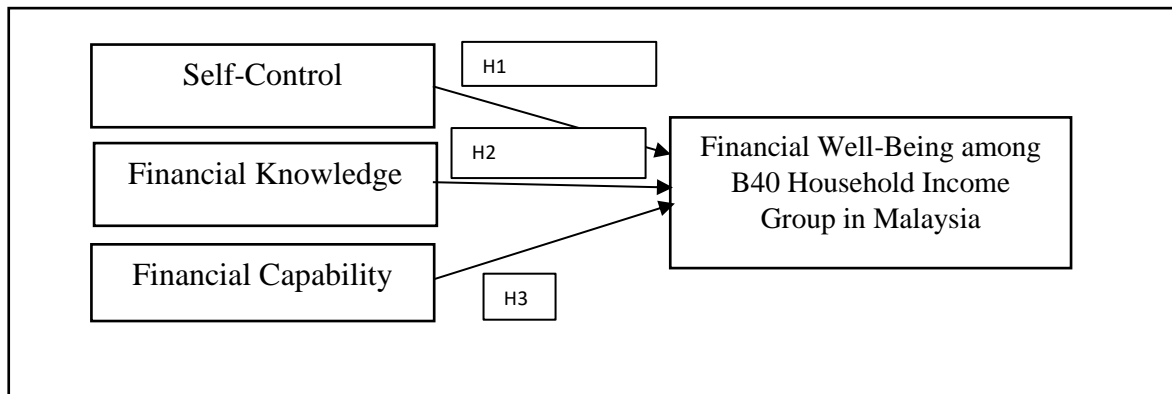
Financial capability is defined as the ability to make ends meet, which could be measured by examining how people manage everyday financial matters and balance monthly income and expenses to avoid overspending (Lusardi, 2011). Taylor (2011) defined financial capability as people's ability to manage and control their finance.

The individuals who are lacking in financial capability are at risk of serious consequences due to limited basic budgeting skills, involvement in unattainable debt, high level of stress and

anxiety, and inability to cope with unexpected changes due to certain circumstances. Being conceptually different from income or material well-being, financial capability reflects people’s ability to manage their money and take control of their finances (Atkinson et al., 2006). This capability is related to making appropriate financial decisions, understanding how to manage credit and debt, and identifying appropriate products and services (Mason and Wilson 2000; Noctor, Stoney and Stradling., 1992).

Therefore, the following hypothesis is developed:

H<sub>3</sub>: A positive relationship between financial capability and financial well-being among B40 household income group in Malaysia.



**Figure 1.0: Display research framework for this study where it was developed based the review of literature.**

Source: developed by researcher for current study

### Research Framework

In this study, research framework is used to examine the effect of self-control, financial knowledge, and financial capability on financial well-being among B40 household income group in Malaysia. The independent variables are chosen adapted from Family Financial Socialization Theory (Gudmunson and Danes, 2011). The research framework for this study is represented in Figure 1.0.

### Research Methodology

#### Sample

Sampling is a vital element in conducting a research study especially for huge number of populations. Non-probability sampling was employed for purposive sampling based on the characteristics in the population and the objectives of this study. The inclusion criteria of respondents must be a working people from B40 group. Therefore, the respondents of this study focusing the worker who are from B40 household income group from Peninsular Malaysia. However, the target respondents are between the age 18-40. 470 respondents are participated in this study and self-administered questionnaire were distributed to target respondent via online form. Google Forms is created in data collecting process.

#### Measures

The instruments comprise of five (5) sections. The first sections touch on frequency of respondents’ profile. The second section assess the financial well-being among B40 household income group in Malaysia. consist of 7 items. The items adopted from Mokhtar and Husniyah, (2017). In addition, the items were measured by the Malaysian Personal Financial Well-Being Scale (henceforth MPFWBS) (Jariah, 2007). This scale was modified according to local

context, and it was adapted by the In Charge Financial Distress/Financial Well-being Scale (henceforth IFDFW) developed by Prawitz et al., (2006).

While in section three, 6 items are asked about self-control and the items is adopted by Stromback et al., (2017). For the four sections, the respondents are asked about financial knowledge. There are 5 items used in this study was adopted from Perry and Morris (2005). and the last section is financial capability consist of 7 items. The question was adopted by Sabri and Zakaria (2015). A 5-point Likert scale measurement ranging 1= strongly disagree and 5= strongly agree was implemented in this study for section two until section five.

### Data Analysis

The Statistical package for the Social Science (SPSS) software version 28 was utilised to analyse the data including frequency and descriptive analysis, reliability analysis as well as multiple regression analysis.

### Result and Discussion on Findings

#### Profile of respondents

A sample frequency distribution was carried out in this study to understand the respondent background. The element of gender, age, occupational sector, marital status, and religion are included in this study.

Female most participate in this study which are 339 persons out of 470 while age of majority of the respondent who are in range of 36 to 40 years old represent 28.1%. who are answered the questionnaire. 44% of the respondents who are working in private sector, 42.6% who are working in public sector while the rest who are self-employed. 186 of respondents receiving their monthly income in the range of RM3,501 and RM4,360 that contribute to 39.5%. Most of the respondents are married people which is 58.9% while the rest are divorced, widow, widower and single. 466 respondents are Muslim who are participated in this study.

**Table 1.0: Descriptive statistic**

Variables	Items	Means	Standard Deviation
FWB1	I have an ability to pay my monthly bills (electricity, telephone, instalments, credit cards)	4.22	0.88
FWB2	I have an ability to know my today's financial situation	<b>4.32</b>	0.79
FWB3	I have an ability to know my current financial situation	4.31	0.76
FWB4	I have enough money to pay off my debts	3.85	1.05
FWB5	I have enough money to cover my retirement life	3.13	1.09
FWB6	I am confident that the monthly income earned can cover my expenses for a month	3.68	1.11
FWB7	I am confident to get a sum of money amounting to RM1,000 during an emergency	3.74	1.26
SC1	I have a hard time breaking bad habit	2.94	1.08
SC2	I get distracted easily with current situation	<b>3.04</b>	1.07
SC3	I do things that feel good in the moment but will regret it later on	2.90	1.08
SC4	I often act without thinking through all the alternatives	2.43	1.02
SC5	I only focus on the short-term actions	2.50	1.09
SC6	The future will take care of itself	2.58	1.20

FK1	I know about the interest rates charged by commercial banks	3.64	1.03
FK2	I know about the credit rating system (Central Credit Reference Information System-CCRIS) implemented by Bank Negara	3.61	1.18
FK3	I know how to manage my personal finances.	4.14	0.81
FK4	I know how to invest money in the stock market	2.60	1.21
FK5	I clearly know the balance on my bank statement	<b>4.41</b>	0.77
FC1	I make plans for my expenses	4.23	0.85
FC2	I pay my bills on time	4.34	0.86
FC3	I review and evaluate my expenses regularly	4.13	0.93
FC4	I make adequate provision for unexpected expenses (shrinking income)	3.98	0.94
FC5	Apart from contributing in pension funds, it is important for me to make my own savings	<b>4.48</b>	0.70
FC6	I consider several loan products from different financial institutions before making my decision	4.13	0.95
FC7	I read the terms and conditions in details before signing any loan agreements	4.14	0.93

Table 1 illustrates descriptive analysis for this study. FWB2 showed the highest mean (4.32) which means the respondents agree that they are able to know their today's financial situation while item FWB5 shows the lowest mean (3.13) which is they do not have enough money to cover their retirement life. For self-control, the highest mean is SC2 (3.04) and the lowest is SC4 (2.43). For financial knowledge, the highest mean is FK5 (4.41) while the lowest is FK4 (2.60) show that the respondent do not know how to invest their money in the stock market. Furthermore, the item financial capability, FC5 shows the highest mean (4.48) stated that the respondents are aware that they should have their own saving, while the lowest is FC4 represent 3.98.

**Table 2.0: Reliability Analysis**

Variables	Number of items	Cronbach's Alpha
Financial Well-Being	7	0.879
Self-Control	6	0.834
Financial Knowledge	5	0.715
Financial Capability	7	0.838

Table 2 indicated reliability analysis for all variables used in this study. Financial well-being as dependent variable was 0.879 followed by independent variables namely self-control (0.834), financial knowledge (0.715) and financial capability (0.838) respectively. The results showed that these four variables have a range of reliability between 0.7 to 0.9, which is considered exceptionally good and can be used for further analysis.

**Table 3.0: Regression results**

	Hypothesis	beta	t-test	p-value	supported
H <sub>1</sub>	A positive relationship between self-control and financial well-being among B40 household income group in Malaysia.	-0.225	-5.000	0.000	Supported
H <sub>2</sub>	A positive relationship between financial knowledge and financial well-being among B40 household income group in Malaysia.	0.384	9.010	0.000	Supported
H <sub>3</sub>	A positive relationship between financial capability and financial well-being among B40 household income group in Malaysia.	0.495	12.320	0.000	Supported

R=0.514; R<sup>2</sup>= 0.265, Adjusted R<sup>2</sup>=0.260; F=55.878; Sig. F=0.000

Table 3 presented the regression analysis result for this study. This shows that the predictions construct is statistically significant at 0.05. Self-control, and financial well-being among B40 household income group in Malaysia are statistically significant relationship (p=0.00). The result was in line with the previous study conducted by Riitsalu and Raaij (2020), which revealed that self-control had a strong correlation with financial well-being.

The above table also indicates a significant effect between financial knowledge and financial well-being among B40 household income group in Malaysia (p= 0.00). The result of financial knowledge is consistence with the finding of study by Falahati and Sabri (2015), stating that a good financial knowledge will increase financial well-being perception. In line of that, financial capability, and financial well-being among B40 household income group in Malaysia (p=0.00) are also statistically significant relationship. The finding of this factor is supported by Sabri and Leila (2003) where the individuals who were able to manage their finances (e.g., having financial goals, savings, investments, and insurance) had the tendency to possess higher levels of financial well-being. Thus, all the hypothesis developed for in this study are accepted.

### Conclusion

The aim of this study is to investigate the factors that influencing financial well-being among B40 household income group in Malaysia. A total of 470 respondents participated in the survey using purposive sampling technique. The data collected via online form. Multiple regression analysis is employed to analyse the data gathered. The findings revealed all the three factors namely self-control, financial knowledge, and financial capability significant effect with financial well-being among B40 household income group in Malaysia. The result of financial knowledge is supported with Falahati and Sabri (2015), stating that a good financial knowledge will increase financial well-being perception. The result is consistent with Renaldo et al., (2020) stating that by having good financial management lead to well understand on the process of financial management. In line of that, for self-control, the finding is inconsistent with the study conducted by Younas et al, (2019) where self-control has insignificant impact on financial well-being in Pakistan.

The finding of this study could be used as guide to related government agencies in reducing and eradicating poverty among Malaysian in enhancing the level of income and increasing the purchasing power, it also can used by Ministry of Domestic Trade and Cost of Living in assisting them to build a strategy in helping this household income group. In terms of limitation, the study could not include all factors of financial well-being. Future research could be included to explore others factors that underline patterns of financial well-being among B40 household income group in Malaysia. Variables suggested for future research include spending behaviour, money management, and socio demographic factors. The study on financial well-being can also be extended into M40 household income group where this group also quite fragile and affected with the economy pressure.

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