FACTORS THAT LEAD TO FINANCIAL DISTRESS OF GENERATION Y IN MALAYSIA

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Abstract

The aims of this research study is to understand the factors that lead to financial distress of the Generation Y in Malaysia. The research study was focused on the internal factors within the respondent including spending behavior, savings habit, financial management and financial literacy, given the absence of external factors or events. The results of the survey conducted on 150 respondents (Generation Y) which selected via the convenience sampling revealed that there is a strong and positive linear correlation between the independent variables of spending behavior, savings habit, and financial management with the dependent variable of financial distress. While financial literacy possess a positive but weak linear correlation with financial distress. Besides, the result of the multiple regression has indicated the research model explains 64.6% of the variance in the dependent variable, and all the independent variables except financial literacy have a significant and positive impact on financial distress. The recommendation based on findings of the research was recommended to policymakers and financial institutions to seek innovative approaches that will make meaningful impact in the financial future of the Generation Y in Malaysia. Lastly, the future research is suggested to include the potential external factors instead of only focus on the internal factor, and may consider to further explore on the impact and consequences of financial distress to the different cohort groups, and to include more sample size and have a more extensive coverage.

1. Introduction

The Generation Y, also known as the Millennial, is the largest generation since the Baby Boomers, composing over twenty-five percent of the total populations around the world (Visa, 2011). In spite of there’s no clear classification of the exact age range of the Generation Y, the general definition are the people that born in and after 1980 (O’Connor, 2009), which is also applicable in Malaysia’s context (PricewaterhouseCoopers, 2009). The Malaysian Generation Y not only composing the largest segment of the country’s population (Muda, Mohd, and Hassan, 2015), they are also represent the largest consumer segment, and they’ll dominate the country’s labor force after the retirement of the Baby Boomers (AIF, 2015).

Based on the research study by Visa (2011) by gathering the opinions of respondents aged between 18 to 28 across 11 Countries, the result reveals that the most of the Generation Y are ambitious and money oriented as more than 80% of them want to earn as much money as possible to allow them for enjoying a better life experience and can get wherever they want in life. While refer to a survey conducted by KPMG (2015) on the focus groups of Australian aged between 18 to 30, the result shows that Generation Y wants to stay in control and be empowered with their own finances. Most of the Generation Y responded did not have a financial planner, and they do not want financial advice in its current form.

According to Lusardi and de Bassa Scheresberg (2014) by referring to the results from the survey of National Financial Capability Study (NFCS) conducted on respondent age above 18 years old in the U.S., most of the Generation Y have excessive of debts, struggling to make debts payment, and worrying about it. They are facing financial pressure causing by the fragile economy, student debts, and unstable job market that will imperil and limit their economic opportunities. There were about 25 thousands of the Generation Y in Malaysia have declared bankruptcy in the past five years (The Sun, 2015), which is a growing trend over the years, especially for those below 35 years old. It is mainly due to the lack of discipline on financial management, and their lifestyle of overspend on things like branded products, IT gadget, and vehicles. In addition to that, the survey newly conducted by the Asian Institute of Finance (AIF, 2015) reveals that the Malaysian youth below 35 years old were facing financial distress as forty percent of the young respondents were actually spend beyond their affordability and struggling to pay off their debt. Many of the Generation Y are living beyond their means, trapped in emotional spending and are on the edge of a financial cliff.

Financial distress among the Generation Y not only will make their life troubled, but will also affect the country’s economy growth. Furthermore, there were many Malaysian graduates who have breached the contract of The National Higher Education Loan Fund (PTPTN). These trends, coupled with lack of job security due to various factors are certainly worrisome because it could lead to lack of financial security, deterioration of quality of life and social problems in the future that can inhibit the process of national development (Idris, Krishnan and Azmi. 2013). This issue may affect the growth of private consumption, and will slowing the country’s growth rate. Malaysia’s aim to become a “high-income status” nation by 2020 is unlikely to achieve if this issue continues. This issue may also weaken the country’s economy, as the purchasing power of the Generation Y, which make up the largest consumer segment in Malaysia (AIF, 2015), is declining.

The aim of this research is to understand the factors that lead to financial distress of the Generation Y in Malaysia. The research study was focused on the internal factors within the respondent including spending behavior, savings habit, financial management and financial literacy, given the absence of external factors or events. The research objectives are to determine the impact of Generation Y’s spending behavior, savings habits, financial management and financial literacy on their financial distress.
2. Literature Review

Financial Distress

Financial distress is referring to the stress that causing by a financial situation from personal, family and other various financial conditions. Delafrooz and Paim (2011b) expand this definition to include economic distress, difficulties, constraints and stress. According to O’Neill et al. (2006a), financial distress can be considered as a subjective phenomenon. Two persons with the same level of earnings and economic resources may have dissimilar level of perceived financial distress and financial well-being. Refer to Garman et al. (2005) the research has found that the individual who are experiencing financial distress are often living paycheck by paycheck with no extra money for emergency, often lack confidence about their ability to manage personal finance, and are insecure about their personal finance for retirement. The causes of one person’s financial distress may differ from the causes of another person’s financial distress. Although there are many factors that will cause financial distress for a person, Ware (2015) highlighted that the 2 broad causes of financial distress are poverty and unmanageable debt. Refer to Stamp (2009), financial distress may arise from the lack of personal responsibility, such as poor budgeting and money mismanagement, heavy use of credit and over-borrowing, over-spending, negative attitudes towards bill repayment, and unwillingness of debt repayment. An individual who experiencing financial distress, including the one that not by definition living in poverty, often live paycheck-to-paycheck (O’Neill, et al., 2006a). According to McCarthy (2011), by quoting the example of the US sub-prime mortgage market, many people facing financial distress and contributed to the Country’s financial crisis because of their bad financial decisions from taking on levels of debts that they’re unmanageable, and to spend beyond their means. He also further pointed out that there are plentiful examples of the European households that are experiencing financial distress because of poor financial behavior.

Spending Behavior

Carrier and Maurice (1998) stated spending behavior can be seen as learned behavior often transmitted by parents and other influential individuals. It is, therefore, mainly passed from generation to generation. According to Lim et al. (2014), overspent have causing many young consumers saddled with debts. The phenomenon of uncontrolled spending among young consumers may happen because of the current technological development and changes as this generation tends to keep up with the current technology trend and highly desired in obtaining the latest electronic gadget (Haji Idris, Krishnan and Azmi, 2013). Norman (2010) also revealed that majority of financial distress is mainly causing by bad spending decision precipitated by a lack of adequate financial literacy. Many people struggled to make payments due to poor financial choices from taking out mortgage and revolving credit that they are not affordable and tend to spend beyond their means (Santos and Abreu, 2013). Findings from Lim et al. (2014) have shown a change in consumer culture from one which tend to save money first, spend later to one which encourage to spend now, think later. Many studies have identified that the credit mentality of "own now, pay later" was spreading among the youngsters (Urbis et al., 2008). Furthermore, the introduction of credit card which enable the consumer to spend beyond their earnings further foster consumer spending. Convenience of advance credit has also supported consumer spending of future money without much thinking (Wiggins, 2008). Financial distress may occur if there is excessive use of credit to make purchase. Often the extent of the financial damage is discovered only after the person has over borrowed and necessitates a drastic change in lifestyle to resolve (Berger, 2005).

Savings Habits
Savings habits are defined as the frequently practiced behaviors, done without a particular sense of awareness, with the goals of freeing up funds for savings or debts reduction (Loibl, 2011). Grimmond and Stroombergen (2000) stated saving behavior is determined by the influence of childhood learning and self-control. Consumer who experiencing financial distress often reported no or low savings and high household debts (O’Neill et al., 2006a). According to Birari and Patil (2014), the young generation are seldom practiced basic financial skills, such as budgeting, developing a regular savings plan or planning for long term requirements. Refer to Shagar (2016), more than 30% of Malaysian does not have a savings account, and most of them have not saved enough to last them more than 5 years after they retired, as unveiling of the Employees Provident Fund (EPF)’s annual report. According to the report, 90% of the rural households totally have no savings, while 86% of the urban household does not have any savings. Only 18% of EPF members achieved the basic savings quantum according to age, a far cry from the institution’s plan to get at least 50% of its members to meet the minimum basic savings according to age in the next 5 years. Bank Negara Malaysia (2013) stated almost every Malaysian claims to have savings and recognize the need to save, but they’re not financially prepared for income shocks. A study of 1,002 young Malaysian workers by Consumer Resource and Research Centre (2012) highlighted that nearly half of the respondents had 30% of their collective gross earnings tied up in debts and 15% of the respondents responded that they have no savings. The respondents of the survey responded that they have only an average of 4 months’ worth of savings.

Financial Management
VanHorne and Wachowicz (2002) has defined financial management behavior as the determination, acquisition, allocation, and utilization of financial resources, usually with an overall goal in mind. It is an area of financial decision-making, harmonizing individual motives and enterprise goals (Weston and Brigham, 1981). According to McCarthy (2011), different style and degree of financial management has an important effect on the debts status or degree of financial coping of a household. The individual that has proper planning or better money management tend to have less debts and cope financially better than the one that don’t plan or manage his/her money as well. Walker (1996) states that time-preference, financial management and attitude toward debts is the important predictor of a household’s level of financial distress, after controlling for demographic and earnings. While Livingstone and Lunt (1992) find that attitudinal factor (such as whether the person is pro-credit or anti-debt, or whether the person consider credit as useful but problematic or not) is a significant predictor in personal debt and debt repayment. Poor inter-generational financial planning and misguided attitude towards money may be causing high collective burden of debts that will lead to unnecessary stress, social hardship, additional burden in terms of social welfare, incidences of bankruptcy, and contribution to persistent poverty (Nga and Yeoh, 2015).

Financial Literacy
Mihalcova, Csikosova, and Antosova (2013) define financial literacy as the ability to use knowledge, skills and experience of a person to make effective decision regarding the use and management of his/her finance to provide life-long financial security for himself/herself and his/her family. Previous research studies have found that the relationship between financial literacy and financial distress are due to financial problem faced by the person who lack of adequate financial literacy (Joo and Garman, 1999). A study by Delafrooz and Paim (2011a) also shown that there is a direct correlation between the level of financial literacy and financial distress among employees in Malaysia. This was further supported by Joo (1998) as he revealed that employees who have
financial problem demonstrate a low level of financial knowledge especially for retirement, savings, financial and debt management or credit. Santos & Abreu (2013) found that financial literacy and financial behavior have an important impact on over-indebtedness. Financial literacy positively contribute to the prevention of over-indebtedness since a person with higher level of financial literacy is less likely of becoming over-indebted. Likewise, a person who engaged in positive financial behavior, such as spending less than his/her earnings, having a ‘rainy day’ funds, using credit wisely or looking for financial advice, is less likely to face severe financial difficulties. By using the data from the UK Financial Capability Survey, McCarthy (2011) examine the relationship between over-indebtedness and financial literacy, alongside with personal traits of individual, and find that a person with higher level of financial literacy is less likely to face financial distress, either in less or more extreme form such as running out of money and going into arrears. Gathergood and Disney (2011) found that less financially literate person is more likely to report credit arrears or difficulty in paying his/her debt. A low level of financial literacy, in particular the inability to effectively manage money when accompanied by unhealthy financial ways of thinking, is factors contributing to financial difficulty (ANZ, 2008).

3. Research Design and Methodology

Research Philosophy and Design

This research study is conducted by utilizing the quantitative research method to formulate facts and uncover patterns for this study. The cross sectional casual study is used for this research study to ascertain the prevalence of Generation Y in Malaysia who experiencing financial distress and to determine the factors that lead to their financial distress. The research data is collected via online survey as well as hardcopy questionnaire to assess the relationships between the dependent variable (financial distress) and independent variables (spending behavior, savings habits, financial management, and financial literacy) of the Malaysian Generation Y. The data collection will be conducted only once by targeting the Generation Y who are currently working and residing in Malaysia, regardless of their ethic group.

Data Collection Method

The primary data were collected through online survey and hardcopy questionnaire. Besides primary data, the research study is also conducted by assessing the secondary data such as the data or reports published by the Malaysian Government Agency and Bank Negara Malaysia (BNM) in the range of previous five years, and also by referring to the similar research study conducted previously by other researchers.

Data Analysis Method

The statistical software will be used to analyze the data collected from the survey questionnaire. SPSS was chosen due to its advantage of better data management, wider range of options available, and better result generated (Campbell & Aragon, 2013). The general assumptions have been checked to ensure the researcher has not violating any of these assumptions. Reliability test conducted to measure how closely related a set of items are as a group. The data analysis is beginning with assessment of the demographic of respondents and descriptive statistics. The correlation analysis is conducted to explain the strength and direction of the linear relationship between the dependent variable and each of its independent variables by using the Pearson Correlation Coefficient. While the multiple regression analysis is conducted to test the significant impact of two or more independent variables on the dependent variable.

4. Results and Discussion
The reliability test is conducted via the Cronbach’s Alpha for all the scale questions asked in the survey questionnaire to evaluate the unidimensionality of the scale questions. The overall Cronbach’s Alpha value for all the scale questions in this survey questionnaire is 0.965, which suggesting very good internal consistency reliability for the scale with this sample.

### Reliability Test

<table>
<thead>
<tr>
<th>Reliability Statistics Test</th>
<th>N of Items</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall</td>
<td>20</td>
<td>0.965</td>
</tr>
<tr>
<td>Financial Distress</td>
<td>5</td>
<td>0.919</td>
</tr>
<tr>
<td>Spending Behavior</td>
<td>5</td>
<td>0.916</td>
</tr>
<tr>
<td>Savings Habits</td>
<td>5</td>
<td>0.932</td>
</tr>
<tr>
<td>Financial Management</td>
<td>5</td>
<td>0.916</td>
</tr>
</tbody>
</table>

**Reliability Statistics Test – Overall**

### Descriptive Statistics

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Statistic</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Financial Distress</strong></td>
<td>150</td>
<td>1.00</td>
<td>5.00</td>
<td>2.5600</td>
<td>1.08064</td>
<td>.711</td>
<td>-.744</td>
</tr>
<tr>
<td><strong>Spending Behavior</strong></td>
<td>150</td>
<td>1.00</td>
<td>5.00</td>
<td>2.7280</td>
<td>1.09036</td>
<td>.593</td>
<td>-.964</td>
</tr>
<tr>
<td><strong>Savings Habits</strong></td>
<td>150</td>
<td>1.00</td>
<td>5.00</td>
<td>2.8080</td>
<td>1.12536</td>
<td>.128</td>
<td>-1.296</td>
</tr>
<tr>
<td><strong>Financial Management</strong></td>
<td>150</td>
<td>1.00</td>
<td>5.00</td>
<td>2.8533</td>
<td>1.28171</td>
<td>.065</td>
<td>-1.010</td>
</tr>
<tr>
<td><strong>Financial Literacy</strong></td>
<td>150</td>
<td>1.00</td>
<td>5.00</td>
<td>2.8533</td>
<td>1.28171</td>
<td>.065</td>
<td>-1.010</td>
</tr>
<tr>
<td><strong>Valid N (Listwise)</strong></td>
<td>150</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Descriptive Statistics**

The finding of this result shows that there were total of 104 Malaysian Generation Y, or 69% of the total respondents get the mean of below 3 in the 5 point Likert-Scale statement about their financial distress, which indicating they are experiencing financial distress now. While there were total of 46 Malaysian Generation Y, or 31% of the total respondents scored the mean of 3 and above, which indicating they are not facing financial distress at the moment. The descriptive statistics table above shows that the mean score for Financial Distress is 2.5600, with standard deviation of 1.08064, which indicates that most of the respondents were reported they are currently experiencing financial distress. Among the 4 independent variables, the mean score for Spending Behavior is the lowest (M = 2.7280, SD = 1.09036), which indicates most of the Generation Y responded to have bad practice in their spending behavior that may causing them into financial distress. On the other hand, Savings Habits scored the highest mean value of 2.8080, with standard deviation of 1.12536, which indicates most of the Generation Y responded to have a relatively good practice in their savings habits, out of the 4 independent variables. Whilst the mean score for Financial Literacy is 2.8533, with standard deviation of 1.28171, which shows that most of the Generation Y only managed to answer 2 questions and below correctly (out of 5 questions) in the Financial Literacy Quiz, which indicates they are lack of adequate financial literacy. Besides, the values for both skewness and kurtosis in the table for all the variables are within the range of +2 to -2, which indicates that, all the data distribution are normal and valid.

### Correlation Analysis
The result of the correlation analysis indicated that there is a strong and positive linear correlation between the independent variables of spending behavior ($r=0.679$), savings habit ($r=0.744$), and financial management ($r=0.747$) with the dependent variable of financial distress. While financial literacy possess a positive but weak linear correlation with financial distress ($r=0.275$). The result indicated that if the independent variables increase (practicing good spending behavior, good savings habits, applying proper financial management, and have adequate financial literacy), the dependent variable will also increase (not financially distress) which is aligned with the research findings by Stamp (2009), Lim et al. (2014), Garman et al. (2005) and O’Neill et al., (2006a) and Santos & Abreu (2013).

**Multiple Regression**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
<th>Change Statistics</th>
<th>Durbin-Watson</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.804*</td>
<td>.646</td>
<td>.636</td>
<td>.05177</td>
<td>.646</td>
<td>66.150</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>4</td>
<td>145</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>000</td>
<td>1.971</td>
</tr>
</tbody>
</table>

*a. Predictors: (Constant), Financial Literacy, Savings Habits, Spending Behavior, Financial Management
b. Dependent Variable: Financial Distress

The result of the correlation analysis indicated that there is a strong and positive linear correlation between the independent variables of spending behavior ($r=0.679$), savings habit ($r=0.744$), and financial management ($r=0.747$) with the dependent variable of financial distress. While financial literacy possess a positive but weak linear correlation with financial distress ($r=0.275$). The result indicated that if the independent variables increase (practicing good spending behavior, good savings habits, applying proper financial management, and have adequate financial literacy), the dependent variable will also increase (not financially distress) which is aligned with the research findings by Stamp (2009), Lim et al. (2014), Garman et al. (2005) and O’Neill et al., (2006a) and Santos & Abreu (2013).

**Multiple Regression**

Refer to the model summary table, the value of the R Square from the result is 0.646, which indicated the model above (which includes Spending Behavior, Savings Habits, Financial Management, and Financial Literacy) explained 64.6% of the variance in Financial Distress. According to Zygmont and Smith (2014), the model can be considered a good fit if it can predict a minimum of 60% variation of the dependent variable. Besides that, the Durbin Watson value in the output table is 1.971, which indicated that there is evidence of positive serial correlation and no singularity or multi-collinearity problem. On average, our estimates of Financial Distress with this model will be wrong by 0.65 – not a trivial amount given the scale of Financial Distress.

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td>.118</td>
<td>.906</td>
</tr>
<tr>
<td></td>
<td>.021</td>
<td>.180</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>.231</td>
<td>.075</td>
<td>.233</td>
<td>.002</td>
</tr>
<tr>
<td></td>
<td>SpendingBehavior</td>
<td>.367</td>
<td>.079</td>
<td>.382</td>
<td>.000</td>
</tr>
<tr>
<td></td>
<td>Savings Habits</td>
<td>.238</td>
<td>.091</td>
<td>.253</td>
<td>.010</td>
</tr>
<tr>
<td></td>
<td>Financial Management</td>
<td>.045</td>
<td>.044</td>
<td>.054</td>
<td>.299</td>
</tr>
<tr>
<td></td>
<td>Financial Literacy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*a. Dependant Variable: Financial Distress

Refer to the coefficients table above, among the 4 independent variables, Savings Habits has the highest coefficient of 0.367, which indicates for every unit increase in Savings Habits, an approximately 0.37 unit is expected to be increased in Financial Distress, by holding all other variables constant. Besides, for every unit increase in Spending Behavior, an approximately 0.23 unit is expected to be increased in Financial Distress, for every unit increase in Financial Management, an approximately of 0.24 unit is expected to be increased in Financial Distress and the lowest among other independent variables, which is 0.045, which indicates for every unit
increase in Financial Literacy, only 0.05 unit is expected to be increased in Financial Distress, by holding all other variables constant.

The result shows the independent variables of Spending Behavior, Savings Habits, and Financial Management are making a significant unique contribution to the prediction of the dependent variable of Financial Distress, as the Sig. value of these independent variables are less than 0.05. On the other hand, the result indicates that the independent variable of Financial Literacy is not making a significant unique contribution to the prediction of the dependent variable of Financial Distress.

5. Conclusion

The main purpose of this research study is to understand the factors that lead to financial distress of the Generation Y in Malaysia. Refer to the survey data collected from 150 Malaysian Generation Y, it shows that nearly 70% of the Generation Y responded they are financially distress at the moment, especially those who are staying in the urban area with higher cost of living. Besides, the result also shows that the respondents who are female, married, non-college educated, or low income earners are more likely to experience financial distress, as compare to those from other demographic group. The result has shown a worrying trend, as the Generation Y, which constitutes nearly half of the nation’s population, is the largest workforce and the backbone of Malaysia.

The result of the research analysis revealed that there is a strong and positive linear correlation between the independent variables of spending behavior, savings habit, and financial management with the dependent variable of financial distress. While financial literacy possess a positive but weak linear correlation with financial distress. Besides, the result of the multiple regression has indicated the research model explains 64.6% of the variance in the dependent variable, and all the independent variables except financial literacy have a significant and positive impact on financial distress. Among all the independent variables, Savings Habits makes the largest unique contribution, followed by Financial Management, and Spending Behavior. Due to the Sig. value of Financial Literacy is greater than 0.05, while the rest of the independent variables are less than 0.05, the result has indicated that all the independent variables except Financial Literacy have a significant and positive impact on Financial Distress.

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