

# A Conceptual Paper on The Best Financial Management Model That Has Become The Practice of the Malay in Klang Valley

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## Abstract

This conceptual paper is presented with the intention to study the best practice model of financial management, which has become the practice of the Malay in Klang Valley. It begins by reviewing the literature on household financial management and the behavior of households against finances and debt. The theory of utility and the life-cycle hypothesis were used as the basis of the study. This study is inspired by the concerns of the government and the public on the growing bankruptcy issue in Malaysia. Many previous quantitative studies discussed the flaws in money management. This study, however, is slightly different. Using a qualitative method, it intends to look at the best practices implemented by the household in managing family finances. The findings can add value to today's body of knowledge. Identified themes can be used to design financial modules which are more compatible to be used by all levels of society.

**Keywords:** Bankruptcy, Couple, Financial management, Materialism, Qualitative, Urban Malay.

## Introduction

According to the Malaysia Insolvency Department's report, in 2017, Selangor recorded the highest bankruptcy rate with 4,458 cases. It was followed by Johor, 2,086 cases and Kuala Lumpur Federal Territory of 1,874 cases. The report also stated that based on gender, 68.32 percent of cases involved men while women were 31.68 percent. In addition, the report also mentioned that Malays were the most widely declared bankruptcy, followed by the Chinese and Indians. It is more alarming when the details showed that individuals between the ages of thirty-five and forty-four were most widely declared bankruptcy with 6,241 cases. Whereas, 4,785 cases involved individuals between the ages of twenty-five to thirty-four, while individuals in the age of forty-five to fifty-four years recorded 4,628 cases. Additionally, the report indicated that hire purchase, housing loans and business loans are the main cause of bankruptcy.

According to Jaafar (2018), based on his interview with Associate Professor Dr Mohamad Fazli Sabri, a consumer finance expert, every festive season arrives, Malaysians spend between two to three times higher than their monthly budget. He added that studies conducted in 2016 show that during Aidilfitri, 55 percent of Malay respondents admit that they spend three times higher than their monthly budget. Meanwhile, 22 percent stated

that their spending was doubled during Aidilfitri. Materialism was seen as a factor that drives individuals to spend more during the festive season until some were tempted to make personal loans. More worrying when the Vice-President of the Association of Licensed Moneylenders of Malaysia, Amrinderjit Singh said that there were 7,500 loan applications for Aidilfitri had been approved by 1,500 licensed lenders nationwide in 2018, with the average lending of RM5,000 per individual.

This lameness is an issue that needs to be taken seriously because, in the last ten years, The Credit Counseling and Debt Management (AKPK) has recorded an increase in the number of individual applications for the Debt Management Program (DMP). A year after its inception in 2006, a total of 8,172 DMP applications were received by AKPK. In the article "AKPK bantu 750,959 hadapi masalah kewangan" (2018) the number continues to increase every year were up to April 2018, AKPK Chief Executive Officer, Azaddin Ngah Tasir said that 225,244 applications for the DMP were received by the agency. According to him, all those who came for the DMP have debt problems. He also added that there has been an upward trend in individual participation for financial counseling where statistics showed that in 2016, participation was 121,321, while in 2017 it increased to 167,521. Given that in the first quarter of 2018, AKPK has served 49,065 individuals for financial counseling, in which this figure is expected to increase until the end of 2018. According to Puteri (2018), the major financial problems faced by AKPK customers are credit card debt (58.3%) and personal financing (30.1%).

## **Problem Statement**

Valliammal and Mohan (2014) states that individuals with knowledge in generating a surplus and accumulating assets gradually will be able to manage their finances well. However, according to Lusardi and Mitchell (2007) and Howlett, Kees, and Kemp (2008), many individuals fails to understand the fundamental concept in finance and mistakenly make decisions regarding savings and investments. In addition, Subramaniam, Ali, and Maniam (2014) indicate that individuals who work and live in cities with a total household income of between RM2,000 and RM3,000 per month, easily caught up with credit card debt, hire purchase loans and have fewer savings. Indeed, these problems have motivated the researcher to explore the financial management practices (FMP) of the urban Malays. This research aims to explore the methods used by middle-income households, without formal financial education background, working and living in the city managing family finances.

## **Purpose of Inquiry and Inquiry Questions**

Through this conceptual paper, the researcher intends to discover the best practice model of financial management practised by urban Malays. To identify whether it is the best financial management model for this group is to understand that the methods practised, can provide peace of mind and create confidence in their financial position in the future. In addition, the financial satisfaction stated by them certainly illustrates that they have practised healthy financial management. Hence, to begin exploring the FMP of the urban Malays, this study has constructed the following research questions:

- (1) How do they manage their source of income?
- (2) How do they control their expenses with limited income?
- (3) How do they behave towards debt?

## **Significance of the Inquiry**

This conceptual paper is very important as it is slightly different from most previous studies. If previous studies focus more on identifying deficiencies in financial management, this study is aimed at exploring the best model of financial management practised by urban Malays who have no formal financial education background in managing their daily finances. The data gathered from the actual experience of informants can provide input to policymakers to form a more appropriate and more acceptable financial module by various groups.

## **Limitations**

Malaysia is well-known for ethnic diversity. However, to understand if cultural and religious values influence the financial decisions made, and to narrow the scope of the study so that the methods practised are deeply explored, priority is given to only one ethnic group, the Malays.

## **Discussion on the Literature**

Facts related to financial management derived from literature search are outlined in this section.

### ***Financial Management Practices (FMP)***

FMP is an approach used by households in managing daily finances. It requires financial skills and knowledge to make decisions involving savings, credit, insurance and investment (Refera & Kolech, 2015). According to Gutter & Copur (2011), to enjoy healthy financial, individuals need to be prudent in managing cash, credit and savings. However, the household economic literature proves that the lack of financial knowledge among most households has resulted in many misinformed financial decisions. It is more worrying that through interviews conducted by Wood, Downer, Lees, & Toberman (2012) many individuals have complained that money management issues are unattractive to note. Although admitting it is important, but many argue it is difficult, causing pressure, boring and time-consuming.

In addition, Rahim (2017) indicates that the attitudes of some youths in Malaysia who love a luxurious way of life by having to spend using credit cards to the maximal limit are very worrying. Up to one level they are willing to make a personal loan for a holiday abroad, buy expensive items and for a luxury wedding party. In fact, in order to maintain their standard of living, any change in income has little effect on their consumption pattern as it is considered temporary (Bryant & Zick, 2010). Additionally, what is more alarming is that, besides making personal loans from formal financial institutions, there are also those who make loans from licensed lenders. Ahmad (2018) stated that on average, the loan was made mainly for festive expenses such as buying new cars and motorcycles and for the expenses of returning to the village.

### ***Financial Management and Ethnicity***

The study conducted by Gittleman & Wolff (2004) shows that there are differences in wealth accumulation patterns between white and black. By employing Panel Study Income Dynamic, data showed that white people inherited their wealth from families. Thus, they rarely face financial problems. Compared to blacks, white people have the advantage not only in terms of income and savings but in terms of wealth accumulation. In addition, Boshara, Emmons, and Noeth (2015) have identified that race, academic achievement and age influence individual financial options.

Meanwhile, based on the study by Yusof, Rokis, and Jusoh (2015) on three different ethnicities in Malaysia showed that Malays and Indians are more susceptible to financial shocks than the Chinese. On average, the Chinese are richer, while the lives of the Indian community are seen to have a high dependence on the husband as a household breadwinner. Meanwhile, Malays generally have low incomes and least savings.

### ***Financial Management in Asian Households***

The study conducted by Minh, Phuong, Saksena, James, and Xu, (2013) showed that many Vietnamese households face the difficulties in managing their finances effectively due to the high cost of health care. In fact, for rural people, daily needs are also difficult to fulfill especially for families with many elderly people in the household. In addition, an analysis of money management of Bangkok's urban population by Grohmann (2018) suggested that people's awareness of savings is good where their level of financial knowledge is at par with other industrialized nations. In fact, a high level of financial literacy has seen improving their financial decision-making process.

Meanwhile, studies by Libois and Somville (2018) in Nepal have shown that increased births in households increase the level of consumption that usually leads to financial problems. In the meantime, a study conducted in Malaysia by Yusof & Duasa (2010) showed that there is a division of tasks in household financial decisions. The wife manages daily household expenses while the husband will decide on the pricey expenses, which must be done out of the ordinary. However, in terms of investment, both practice autonomy decisions.

## **Methodology**

Qualitative methods will be used to obtain answers to research questions in which in-depth interviews are chosen as instruments. Qualitative methods are selected based on the Muske (1996) statement which, in addition to quantitative, household FMP can be explored through qualitative methods. In addition, Solheim, Zuiker, and Levchenko (2011) stated that qualitative methods are appropriate because data enrichment can be obtained from informants via their statements. Silverman and Marvasti (2008) also noted that the exploration of people's behavior is appropriate through qualitative methods because besides it occurs in a natural environment, it also incorporates observation, interview and documentary methods. In addition to researchers being able to position themselves in research, it allows researchers to interpret based on their personal phenomena, cultural phenomena and history (Creswell, 2003).

Data from a series of in-depth interviews will be analyzed using a phenomenological approach. The process of collecting data will begin with a pilot study to ensure the answers to interview questions meet the research purposes. Based on the pilot study, interview questions will be improved for the purposes of actual data collection. Data will also be reinforced by taking into account data from observations and field notes.

Meanwhile, informants will be selected through a purposive sampling method that focuses on the Malays, middle-income, working and residing in urban areas.

## Conclusions

The results of this study allow the researcher to conclude that although without a formal financial education background, there are a handful of households who have developed a wise and prudent financial management approach. In fact, the latest technology facilitates the management of spending and debt. Controlling expenses, managing debts wisely and saving allows individuals to feel more confident with their financial position in the future.

## Recommendations for Future Research

The future researchers should make a cross-comparison study on the major three ethnics in Malaysia to see whether culture and religion play an important role in FMP.

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