

Predictors of Financial Behavior: Using the Theory of Planned Behaviour

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The primary objective of the proposed study is to examine the predictors of financial behaviour in the Northern province of Sri Lanka. Previous studies' results have shown that these predictors are significantly associated with individual financial performance in managing personal finances. In Sri Lankan Context, this study also provides important statistical evidence pointing to a potential future aging population issue, further underscoring the study's relevance. The Theory of Planned Behavior (TPB) is used by the researcher for their financial context application. The relationship between attitude, subjective norm, perceived behavioural control and intention has been examined in relation to TPB framework, resulting in financial behaviour determinants. This research is therefore novel being the first one theoretically arguing for an expansion of the TPB model starting with financial knowledge in Northern Province, Sri Lanka. The TPB framework forms the foundation for investigating how financial knowledge influences financial behaviour through attitudes toward retirement, subjective norms, and perceived behavioural control, ultimately impacting intention. The researcher believed that the study will provide valuable insight to policymakers, academic groups, and practitioners. Additionally, by raising awareness about finance and retirement, the study is expected to offer meaningful contributions to society. The researchers also recommend that similar studies using these proxies should be conducted in other regions to expand the understanding of financial behavior.

Keywords: *Financial behaviour, Financial Knowledge, Retirement planning, Subjective Norms and Theory of planned behaviour*

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Introduction

Living in a world that is more financially driven rather than trade-driven emphasizes the importance of an individual's ability to manage financial affairs, which ultimately affects their quality of life. The knowledge and understanding a person has regarding financial matters can greatly facilitate day-to-day financial decision-making. Financial literacy can significantly contribute to this process. Financial resilience is based on prudent financial planning (FP) behaviour. Personal FP is crucial for maintaining a healthy financial situation and meeting future financial needs (Mahapatra et al., 2019). FP involves managing personal wealth to achieve economic satisfaction (Kapoor et al., 2014). Ideally, comprehensive FP should cover all six areas. They are Cash Flow Management, Investment Planning, Retirement Planning, Tax Planning, Insurance Planning and Estate Planning. However, the specific life stage of an individual, such as retirement, and life circumstances, such as job loss, may require focusing on particular areas. For instance, retirees may not be actively involved in tax planning, and a laid-off worker may not be able to engage in investment planning. Personal FP is a profound concept that theoretically reflects and practically safeguards individuals' financial resilience. It can be understood from two perspectives: academic and practical.

From an academic perspective, personal finance is multidisciplinary and it includes fields such as economics, family studies, finance, information technology, psychology and sociology according to Schuchart et al. (2007). There are theories in various disciplines that explain the behaviour of individuals concerning money and their management (Copur & Gutter, 2019). However, the theories used to analyse personal financial behaviour are usually imported rather than developed, a regular phenomenon witnessed in many new interdisciplinary areas (Murray & Evers, 1989) including personal finance (Lyons & Neelakantan, 2008). In the practice perspective, Palmer et al. (2009) stated that FP to address the uncertainty of the economic environment is required for everyone. Hanna and Lindamood (2010)

agreed that personal FP is enough to offer economic gains such as making wealth, avoiding any form of loss, and balanced consumption. But the reality is, that most people are not financially capable, skilled or knowledgeable enough to manage their finances (Chen & Volpe, 1998).

Over time, society is experiencing growing problems of high costs of living, and various financial problems, as financial issues are becoming increasingly complex over the years (Baker et al., 2023; Mahapatra et al., 2019). Personal financial literacy and financial management has been receiving attention globally where financial wellness is prioritized by persons. According to Birari and Patil (2014), one should cultivate and attain essential knowledge to be able to control one's spending and obtain adequate strategies to prevent financial issues. Several things could cause individuals to exhibit irrationality with their finances for instance, consumption, aggressive trading, lack of savings, and retirement. However, one of the main fundamental causes that drive such improper financial actions and, subsequently, many financial issues that people confront is undoubtedly the absence of financial literacy (Organization for Economic Cooperation and Development 2020). Based on the Organization for Economic Cooperation and Development (2013) financial literacy is defined as financial knowledge, skill, attitude, awareness, and behaviour necessary for making a sound financial decision and attaining sound financial health. In other words, financial literacy is defined as the capacity to apply knowledge and skills, to handle personal financial issues (Pailella, 2016; Tavares et al. , 2023). Interestingly, financial behaviour in people's everyday practices is intertwined with financial literacy. According to Tan et al. (2011), for personal FP, people must develop cognitive ability and financial literacy. Consequently, Ali et al. (2014) opine that financial literacy is an aspect that should receive serious consideration by individuals since it impacts their welfare. However, available literature shows that financial literacy does enhance the effectiveness of FP. In particular, those with low financial knowledge will find themselves indebted (Lusardi & Tufano, 2009) and will undoubtedly raise their financial risk (Gathergood. ,2012). Citizens and

consumers are equipped with enough information to be able to evaluate their situation and make sound decisions.

Scholars have employed some theories in FP and established varied factors influencing the same. The development of theories concerning the processes of FP is grounded in behavioural finance theory. These theories still hold significant relevance in FP studies (Asebedo, 2022; Overton, 2008). One of the most popular theories associated with behavioural finance is the TPB (Ajzen 1991). It has been applied in various studies to forecast and account for people's behaviour or lack of proper control over their actions (Ajzen 1985, 1991, 2002). Notable about the TPB is that it is based on the theory of reasoned action which posits that human behaviour is a function of the intention to do a certain behaviour, and the intention can be influenced by attitudes and perceived norms regarding the behaviour in question (Fishbein & Ajzen, 1975). According to the theory, Intention is the best predictor of an individual's behaviour, which in this case is analysed by attitude and social normative perceptions towards the behaviour of the individual in question (Montano & Kasprzyk, 2015). In addition, the experiences that people go through in their lifetime influence their handling of money and their decisions about it. As a result, financial literacy can be defined as the extent and confidence of an individual to effectively apply his/her financial knowledge on financial issues that he/she perceives to have control over, according to Huston (2010) and Lusardi & Mitchell (2014). In this regard, the theory can be used to analyze how the financial literacy process functions for each person. A number of studies have established a positive relationship between financial literacy and saving for retirement among working adults. According to Rasiah et al. (2022), individuals with such traits would likely control their credit card usage, pay their bills on time, stick to the budget, handle their financial affairs, and make rational decisions regarding credit card usage. However, many of working people and pre-retirees have poor financial literacy and FP and so they end up having worse standards of living during their retirement (Butt et al., 2018; Lusardi & Mitchell, 2017).

The ageing population in Sri Lanka is sharply on the rise and there are 771 million people who are 65 + years and above in the world which is nearly 10 percent of the world's population (United Nations, 2022). It is further estimated that by 2050, 703 million people will be aged 65 years and above, which will be 16% of the World's population-United Nations, 2022. This is because people are living longer due to medical progress as well as improvements in economic and social well-being that have led to longer durations of retirement (Bloom et al., 2015; Rasiah et al., 2022).

It takes years to gain an education and build up skills and knowledge to enter the job market, while after that one spends 30 to 40 years working and building their lives (Farrer & Shire, 2021). According to the study done by Kadoya & Khan, (2018), people at a relatively young age cared less about their financial status and retirement as they only began to think or worry about retirement planning at middle age. In addition, Froidevaux et al. (2016) pointed out that the successful transition from work to retirement and achieving reasonable retirement adjustment has become a major issue for working people aged 40 and above who are gradually entering the stage of becoming older workers. However, as the evidence suggests, in most cases, there must be a systematic approach to retirement planning (Klapper & Lusardi, 2020).

In Sri Lanka, the TPB has been utilized in various research areas such as medicine, marketing, and consumer applications. However, there is a lack of research on the application of TPB in personal finance. This study is the first to provide theoretical justification for its expansion to incorporate financial knowledge as the starting point of the original model. The results will also support the important role of TPB in examining how financial knowledge influences financial behaviour through attitudes toward retirement, subjective norms, perceived behavioural control, and intention. Thus, the problem of the study is “whether financial knowledge affects financial

behaviour through the attitudes toward retirement, subjective norms, perceived behavioural control, and intention.

Research Questions

The present study will attempt to analyze the following research questions;

- What is the effect of financial knowledge on financial behaviour, mediated by the attitude towards retirement?
- How does financial knowledge impact financial behaviour, with perceived behavioural control as the mediator?
- What is the effect of financial knowledge on financial behaviour, mediated by the attitude towards retirement and behavioural intention?
- How does financial knowledge impact financial behavior, mediated by perceived behavioral control and behavioral intention?
- what is the effect of financial knowledge on financial behaviour, mediated by subjective norms and behavioral intention?

Objectives of the Study

The objectives of the study are;

- To investigate how financial knowledge impacts financial behavior, with attitude toward retirement as the mediator.
- To investigate how financial knowledge impacts financial behavior, with perceived behavioural control as the mediator.
- To investigate how financial knowledge affects financial behavior through the mediating role of retirement attitude and behavioral intention.
- To investigate how financial knowledge affects financial behavior through the mediating role of perceived behavioral control and behavioral intention.
- To investigate how financial knowledge affects financial behavior, while considering the mediating effects of subjective norms and behavioral intention.

Literature Review

This study fell under the social sciences disciplinary area within Psychology (Ajzen & Fishbein, 1980). This is not very surprising since Psychology is the study of behaviour and the mind which is the subject under study (Potter, 1988). According to Ajzen and Fishbein (1980), it is logical to look for factors other than the attitude that may directly influence the behaviour or even interact with the attitude in the determination of behaviour (Ajzen & Fishbein, 1980). These contributions relate to attitude theory by making a clear distinction between attitude, intention and behavior. They regard intention as the most important determinant of actual behaviour, with attitude being a consequence of behaviour (Ajzen & Fishbein, 1980). The most commonly used model is the Theory of Reasoned Action (TRA) developed by Martin Fishbein in 1967. TRA comes from his earlier theoretical work on attitude called the Expectancy-value Theory (Ajzen & Fishbein, 1975). According to TRA, a person's likelihood of performing a specific behaviour depends on two fundamental antecedents: the behaviour and perceived social pressure to perform the behavior (Ajzen & Fishbein, 1980). These two constructs together define intention enabling the researcher to predict some actual behaviors. In general, the influence exerted by the attitude and subjective norm towards a particular behaviour is directly proportional to the individual's behaviour intention (Ajzen, 1991). TRA was then expanded by Ajzen in 1988 due to the shortcomings that Ajzen and Fishbein had discovered while using the TRA in their research. Their research revealed that the TRA postulated the notion of self-control as insufficient for real behavior (Ajzen, 1988; 1991). This assumption eliminated individuals who, as much as they would like to engage in a particular behaviour, might not be able to do so. The idea that the majority of behaviours are between the complete control and the lack of control at the other end is much more realistic (Godin et al. , 1992). To balance these observations, Ajzen (1991) introduced the third antecedent determinant of intention, which he called perceived behavioral control (PBC). It is

however important to note that while TRA and TPB are two different names, the TPB is basically an elaboration on the TRA (Sparks & Shepherd, 1992).

As with most major theories, the TRA and the TPB have been criticised on several levels. The first criticism is that both theories are deemed causal because the variables of attitude and intention are causal in nature. However, in empirical tests performed on the models, researchers use correlational designs, which show that variation in one variable leads to variation in another but does not show the direction of causality. Armitage and Conner (1998) discussed the TPB and reviewed multiple TPB-based studies to identify the breadth of empirical support for extending the TPB by adding six additional variables. These include belief salience, past behaviour/habit, perceived behavioural control versus self-efficacy, moral norms, self-identity and affective beliefs. In addition, TPB postulated that a person's behaviour is influenced by their behavioural intention which is a function of attitude to the behaviour, subjective norm and perceived control over the behaviour (Ajzen, 1991). Furthermore, self-identity was included in the expanded model of the TPB. The original framework of the TPB is as follows;

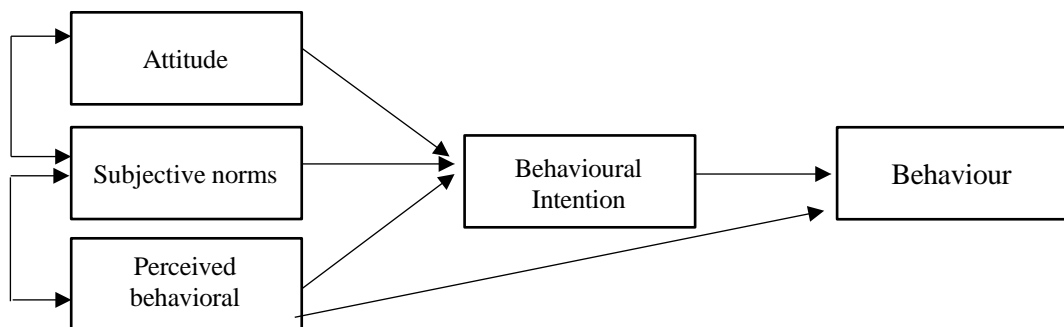


Figure 1: The Theory of Planned Behavior (Ajzen, 1991)

According to Ajzen (1991), attitude, perceived behavioural control and subjective norms can be able to predict one's intention to perform a particular behaviour. Perceived behaviour control when complemented with intention results in actual behaviour (Ajzen, 1991; Ogiemwonyi & Harun, 2021). Moreover, Ajzen et al.

(2011) argue that TPB can incorporate extra predictors if they fit essential requirements and can impact on motivational factors, behavioural intention, or behaviour. For instance, Ajzen et al. (2011) suggest that the level of knowledge can be a precursor to behaviour, which is not included in TPB's current set of predictors but can influence motivational variables. Likewise, previous research on personal finance literacy has found that personal financial knowledge can affect motivational conditions as well as financial behaviour (Ajzen et al., 2011 Rasiah et al., 2022). undefined She et al. (2024) and Mahfuzur (2021) proposed the revised model.

Research Methods

Research Design

The study proposed the use of an Explanatory Sequential Mixed Method research design. The quantitative phase will answer the research questions and test the null hypothesis for each question. Survey questionnaires are used to elicit data from households in the Northern Province. The second phase of the research therefore employs a qualitative methodology to gather detailed and thick data for investigating the phenomenon under study. This defines the present study as explanatory research as it aims to find out the actual reasons and offers a detailed explanation of a certain observed phenomenon. The findings will then be employed to test the extent to which the theoretical model is an accurate portrayal of the real-life organisational phenomenon in its context.

Proposed Sampling Framework

The required sample size for the lowest stratum has been calculated using Krejcie and Morgan's (1970) sample size table.

Table:

District	Jaffna	Kilinochchi	Mullaitivu	Mannar	Vavuniya	Total
No of Families	206,574	49,427	46,693	48,863	56,885	408,442
Lower income level families	78,444	24,755	6,445	22,905	30,773	163,322
Population	128,130	24,672	40,248	25,958	26,112	245,120
Sample size	384	379	381	379	379	1902

Based on the vital statistics of Northern province (2023), the information is summarized in the table for the quantitative study.

Further, the researcher proposed the following for the qualitative study;

The number of in-depth interviews is fifty

Conceptual Framework

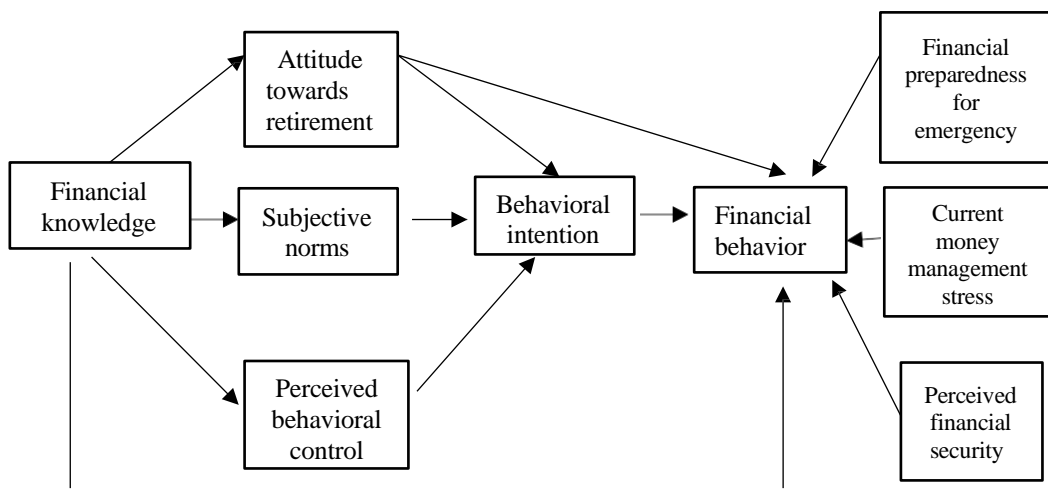


Figure 2: Conceptualization

Proposed Hypothesis

The following hypotheses are proposed for the study;

H₁: Financial knowledge has a significant impact on financial behaviour with the mediating role of Attitude toward retirement

H₂: Financial knowledge has a significant impact on financial behaviour with the mediating role of Attitude towards retirement and behaviour intention

H₃: Financial knowledge has a significant impact on financial behaviour with the mediating role of Perceived behaviour control and behaviour intention.

H₄: Financial knowledge has a significant impact on financial behaviour with the mediating role of subjective norms and behavioural intention.

Conclusion

The primary objective of the proposed study is to examine the predictors of financial behaviour in the Northern province of Sri Lanka. This study has not only contributed to knowledge but also has proposed a theoretical framework that shall assist other researchers in the financial behaviour context. According to the existing theory, financial Knowledge, attitude, retirement planning, perceived behavioural control and self-perceived subjective norms contribute to the actual financial behaviour of the individual. The present study suggests that the mediating effect of attitude, subjective norm, perceived behavioural control, and intention on financial knowledge influences financial behaviour. The researcher believed that the study will provide valuable insight to policymakers, academic groups, and practitioners. Additionally, by raising awareness about finance and retirement, the study is expected to offer meaningful contributions to society. However, the effect should be supported by quantitative evidence. However, since this is a concept paper there is no idea on data collection. Therefore, the structure of the study is derived from the previous literature on the given subject. Hence, it means that the generalization of the findings and application are not suitable. However, the study encourages this to be done in other provinces with the above-stated proxies or other proxies.

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