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Does Demographics Influence ‘Orientation Towards Finances’ (ORTOFIN): A Study in the Saudi Arabian Context

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ABSTRACT

Orientation towards finance (ORTOFIN) is an individual behavioural disposition characterized by personal interests and skills related to managing one’s own finances effectively. ORTOFIN Scale was construed as an individual behavioral disposition that considers the personal financial management behaviour concern (Loix, Pepermans, Mentens, Goedee & Jegers, 2005). The scale which was validated using rigorous procedure, in the European population was standardized in the Asian population by Sulphey & Nisa (2014). The present study was done in the Kingdom of Saudi Arabia. The objective of the study was to find out the relation between ORTOFIN and various demographic factors. The study has found out that only certain demographic factors are related to ORTOFIN.

Keywords: Behavioural Finance, Orientation towards finance, ORTOFIN, KSA.

1. INTRODUCTION

Individuals engage in financial behaviours daily, which could influence their attitude and financial well-being. How individuals handle their own income and their financial situations and the important elements of this particular behaviour are matters that are worth examining. The question as to why certain individuals are better managers of their personal finances, and how they are able to budget their expenses and allocate their incomes effectively have been a matter of concern (Loix, Pepermans, Mentens, Goedee & Jegers, 2005). It has been found that sound financial management behaviours have a direct effect on personal and interpersonal relationships, and are often found to have a host of direct and indirect benefits (Dew & Xiao, 2011).

With the advent of Behavioural Finance as a separate discipline these topics have received the due attention and focus. A lot of literature has been accumulated in the area of specific financial behaviours like savings and investments (Dew & Xiao, 2011; Lewis and Mackenzie, 2000; and Wärneryd, 2001), debt ridden behaviour and coping skills (Khatijah, Sapora, Zulkiple & Jusoff, 2013), investment behavior (Lewis and Mackenzie, 2000), etc. Studies have found that the quantum of assets and consumer debts have a close association with the quality of relationship between married couples (Dew, 2007). Xiao, Tang & Shim (2009) have found an association between positive financial management behaviours, physical and mental health, academic success, as well as life satisfaction.

Since the existing studies focused mostly on specific behaviours, Loix, et. al., (2005) with a view to focus on the non-specific financial behaviour or the ordinary public introduced a construct named 'Orientation towards Finances' (ORTOFIN). It examines how the general public handles their income and financial situations, and their routine financial matters. They defined the construct as '*an individual behavioral disposition characterized by personal interests and skills related to managing one's own finances effectively*'. The construct considers a range of general individual financial behaviour ranging from risk-taking to individual investments, and a few elements that are likely to affect this behaviour. ORTOFIN is construed as an individual behavioral disposition that considers, in a general and non-specific nature, the personal financial management behavior. Loix, et. al., (2005) also constructed and validated a scale to measure ORTOFIN. The scale developed and validated in the European context has been used in a number of countries. Sulphey & Nisa (2014) tested and identified the applicability of ORTOFIN Scale in the Indian context. The present study intends to find out the relationship of various demographics on Orientation towards Finance in the Saudi Arabian context. Based on this, the objective of the study is set as 'To examine the relationship of various demographic factors on ORTOFIN in the Saudi Arabian context'.

2. REVIEW OF LITERATURE

A few suggest that adequate literature exists about the relationship between various demographic and personality variables and financial behaviour. A few relevant literatures are presented in the following sections.

Gender and Financial Behaviour

A number of studies have analyzed the relationship between gender and financial behaviour (Chen & Volpe, 2002; and Hayhoe, Leach, Turner, Bruin, & Lawrence, 2000; Lusardi & Mitchell (2008). Gender differences in financial behaviour have been identified by Hayhoe et. al., (2000) Chen and Volpe (2002) and Goldsmith, Goldsmith & Heaney, (1997). Lusardi and Mitchell (2008) while finding differences in financial literacy between both genders suggested the need for more financial education programme for females. Confirming the findings of an early study of Prince (1993), Loix, et. al., (2005) found that female respondents had a significantly lower general orientation toward finances. Chen & Volpe (2002) and Goldsmith et. al., (1997) observed that though females tend to have lower scores on financial knowledge, they were most likely to have sound financial practices. Hayhoe et. al., (2000) also identified gender differences in financial behavior. A later study by Sulphey & Nisa (2014) found that there is no significant difference in financial information based on gender. However, significant difference was found between the two genders in the factor Personal Financial Planning, with the scores of females being high. Sulphey & Nisa (2014) that there is not relationship between marital status and ORTOFIN.

Financial Knowledge and Behaviour

Ever since Behaviour Finance started emerging as a separate discipline, there have been a plethora of studies in the area of financial knowledge and behaviour (Courchane, 2005; Joo, 2008; Perry, 2005; Sulphrey & Nisa, 2014). The direct and significant impact between financial knowledge and financial behaviours (Courchane, 2005), and on the probability of individuals maintaining an appropriate balance with respect to financial matters (Sulphrey & Nisa, 2014) has been presented by a number of studies. Certain studies, for instance (Bernheim et. al., 2001) have examined the level of education and behaviours. Kotlikoff & Bernheim (2001) established that those with high literacy scores are most likely to follow recommended financial practices. In the same lines, Hogarth, Beverly & Hilgert (2003) observed that those having adequate financial knowledge are more likely to involve in appropriate financial behaviours like timely payment of bills, reconciliation of their cheque book periodically, as well as maintaining a sort of 'emergency fund'. There are also evidences to suggest that households with less financial knowledge usually borrow at higher levels, and are found not to plan for retirements (Lusardi & Mitchell, 2007).

According to Courchane (2005) individual income has the most significant impact on financial behaviour; closely followed by financial satisfaction, financial confidence, and education. Further, financial knowledge and financial confidence have a significant impact on individual behaviour. Joo (2008) emphasized the importance of financial knowledge, when he proposed that it is an important element of personal financial wellness. Financial wellness, according to him, involves a host of aspects like financial satisfaction, financial behaviour, financial attitudes, etc. There are others who are cautions about undue emphasis on financial knowledge. Jeanne, Sondra and Marianne (2003) opined that information sources are strong determinant of financial management behavior. By identifying the characteristics of people exhibiting certain patterns of financial behavior, it is possible to make recommendations regarding financial education programmes. According to Braunstein & Welch (2002) and Perry (2005) mere financial knowledge would not ensure better financial behaviour, and would be insufficient.

Highlighting the need for financial education; Bernheim, Garrett & Maki (2001) associated it with higher savings rates and higher net worth. According to them financial education is a powerful tool for stimulating personal savings. All these studies thus establish the profound and compelling need for a fair financial knowledge by all individuals.

Financial Knowledge and Credit Cards

The relationship between financial knowledge and credit card management is a topic that has been researched extensively (Robb & Sharpe, 2009; Robb, 2011). While the former study was about financial knowledge and credit card behaviour, the latter was about credit card management. Robb & Sharpe (2009) found a significant association between financial knowledge and credit card balance behaviour. So was the case of credit card management behaviour (Robb; 2011). Informed individuals are most likely to be wise while taking cash advances and make only the required payments. They are seldom delinquent with respect to cash payments, and often keep away from 'maxing out' their credit cards.

Though substantial evidence exists with respect to financial behaviour and certain demographics, not many studies exists with respect to population in KSA in general, and in dimension like age, quantum of salary, experience, marital status, etc; in particular. The present study is an attempt to fill this gap in literature.

3. METHODS AND MEASURES

Tool

The present scale has used the ORTOFIN Scale for collection of data. The ORTOFIN Scale was developed and validated by employing rigorous scientific procedures by Loix et. al., (2005). The scale has two factors – Financial Information (FI) and Personal Financial Planning (PFP). FI indicates an interest factor. It denotes actively looking for financial and economic knowledge. PFP represents the logic of financial management and focuses on planning-related behavioural competencies. The Scale developed and tested on European population has reported acceptable levels of discriminant, convergent and construct validities, test-retest reliability, as well as construct reliability. The overall model is having goodness-of-fit based on Jöreskog and Sörbom (1981) model, with a high score of 0.969. The adjusted goodness-of-fit had a score of 0.942. The Scale has also been tested in Asian population by Sulphey and Nisa (2014), and fairly good reliability and validity has been reported.

ORTOFIN is constructed in such a way that a high score indicate stronger orientation toward finances. Loix et. al., (2005) opined that an individual having a high score in the Scale could denote sound awareness of his financial means, and the details of his savings and deposit accounts. A high score could also reflect in their behaviours, as they could be in the habit of extensive use of debit/credit cards, maintaining higher number of savings bank accounts, and most possibly a wide range of investments. There is all possibility that they could exhibit an inclination towards obsession for money. Further, they are most likely to measure individual success and power in terms of money. A link between ORTOFIN and general consumer behaviour has also been proposed by Loix et. al., (2005). According to him individuals with high scores in ORTOFIN could have the habit of compulsive consumption and involvement in credit abuse.

Sampling

Data for the present study was collected randomly from 76 samples. The sample pertained to various demographics. The minimum and maximum ages of the sample were 18 and 58 years respectively. The average age of the sample was 34.72 years. Regarding the number of children, 25 samples were not having any children. 16 each were having one and two children. 12 were having three children, five having four children and two were having five children. The minimum year of experience was less than 1 year and the maximum 32 years. The average year of experience was 10.1 years (Standard deviation 7.24). While the natives have stayed in KSA for their life time, for the others the minimum years of stay was less than a year and the maximum was 38 years. The average years of stay were 9.98 years (Standard deviation 9.85). The demographic pattern of the sample is presented in Table 24.1.

Table 24.1
Demographics of the sample

	<i>Particulars</i>	<i>Number</i>	<i>Per cent</i>
<i>Marital status</i>	Married	58	76.3
	Unmarried	18	23.7
<i>Types of industry working</i>	Education	32	42.1
	Service	30	39.5
	Manufacturing	14	18.4

	<i>Particulars</i>	<i>Number</i>	<i>Per cent</i>
<i>Qualification</i>	Doctorate	16	21.1
	Post graduate	27	35.5
	Graduate and below	33	43.4
<i>Income</i>	Less than SAR5000	15	19.7
	SAR 5001 to 10000	34	44.8
	SAR 10001 to 15000	18	23.7
	SAR 15001 to 20000	6	7.9
	SAR 20001 and above	3	3.9

Analysis and Discussion

As stated earlier, the objective of the study was to examine the relationship of various demographic factors on ORTOFIN in the Saudi Arabian context. Correlation analysis was done to find out the relationship between the various factors analysed. The correlation table is presented in Table 24.2.

Table 24.2
Correlation Table

	<i>ORTOFIN score</i>	<i>Age</i>	<i>Experience</i>	<i>Years in KSA</i>
<i>ORTOFIN score</i>	1	.033	.050	-.050
<i>Age</i>		1	.878**	-.049
<i>Experience</i>			1	.084
<i>Years in KSA</i>				1

ORTOFIN and Age

An earlier study by Loix et. al., (2005) had found that age does not differentiate among ORTOFIN scores. The results of the present study also confirm the earlier findings. The r value was found to be .033, which is not significant. It can thus be inferred that age has no impact and is independent of orientation towards finances in KSA too.

ORTOFIN and Income Levels

A positive relationship was found by Loix et. al., (2005) between income and total ORTOFIN score and Financial Information. The present study has partially confirmed the finding of Loix et. al., (2005). The analysis to find out the relationship between overall ORTOFIN score and income did not reveal any significant correlation. However, the factor Financial Information was found to have a significant correlation at .05 level ($r = .259$) with income. This could be probably because, as levels of income increases, people have the tendency to read news items and gain the required skills to keep track of the general economic trends. This may be lacking among people lower levels of income.

ORTOFIN and Education

An attempt was made to find out if there exists any difference in the ORTOFIN scores with respect to the qualification levels of the sample. ANOVA was conducted and the result is presented in Table 24.3.

Table 24.3
ANOVA of ORTOFIN based on Education levels

	<i>Sum of Squares</i>	<i>df</i>	<i>Mean square</i>	<i>F-value</i>
Between groups	143.371	2	71.686	4.279**
Within groups	1222.879	73	16.752	
Total	1366.250	75		

Note: ** Significant at .05 level

The ANOVA value of 4.279 was significant at .05 level. This denotes that there is significant difference between the samples belonging to different educational levels. Since people having three levels (Doctorate, Post graduate and Graduation and below) of education had responded, an attempt was made to find out where the actual difference exists. Towards this *t*-test was conducted. The data and *t*-value are presented in Table 24.4.

Table 24.4
Data and *t*-values based on Education levels

<i>Particulars</i>	<i>Mean</i>	<i>SD</i>	<i>t-value</i>
Doctorate	32.250	3.786	1.848 NS
Post Graduate	29.667	4.764	
Doctorate	32.250	3.786	3.260 **
Graduate	28.606	3.614	
Post Graduate	29.667	4.764	0.980 NS
Graduate	28.606	3.614	

Based on qualification significant difference was found only between Doctorates and graduates (*t*-value 2.26). There was no significant difference between other combinations as can be seen from Table 24.4. The mean values are found to increase with the qualification – 28.606 for Graduates, 29.667 for Post graduates and 32.25 for Doctorates; implying that higher the qualification higher is the orientation towards finance. This finding substantiates that of Loix et. al., (2005). They have observed that ‘more highly educated people were more oriented toward finances and more inclined to look for financial information’. They were of the opinion that this could be due to better qualified people gaining the required skills to understand complex material about financial affairs.

Relation Between ORTOFIN and Financial Behaviour Indicators

Two aspects of financial behaviour was used – knowledge about the credit card account and savings bank. The respondents were asked to respond to the item “To what extent do you know the balance in your credit card” and “To what extent do you know the balance in your savings bank”. The options available for the statements ‘were not at all, vaguely, more or less, almost exactly’, and ‘very exactly’.

The responses to the items have revealed some interesting facts. 38.2 per cent of the sample (N = 29) were not having credit cards. Only 7.9 per cent of the respondents exactly knew the balance of their credit

cards. While 18.4 per cent exactly knew the balance, 23.7 per cent knew only more or less. 11.9 per cent of the sample either did not know the balance or knew the balance only vaguely. The findings does not auger well as only a small per cent knew the balance exactly. Regarding the saving bank balance, 51.3 per cent of the respondents 'almost exactly', or 'very exactly' knew the balances with their savings bank account(s). Only 15.8 per cent did not know or vaguely knew about the balance in savings bank account. The results are slightly better than that of the knowledge about credit card balance.

The correlation between Financial behaviour indicators and ORTOFIN scores is presented in Table 24.5.

Table 24.5
Correlation between Financial Behaviour Indicators and ORTOFIN

	<i>Financial planning</i>	<i>Personal financial planning</i>	<i>Overall ORTOFIN score</i>
Knowledge about credit card balance	.269 *	.028	.208
Knowledge about savings bank balance	.199	.311 **	.309 **

Note: *Significant at .05 level

**Significant at .01 level.

Loix et. al., (2005) had hypothesized that differences in ORTOFIN would result in different actual financial behaviour. The present study has thrown up a mixed result as seen from Table 24.5. While knowledge about credit card balance has a significant correlation at .05 level with the factor 'Financial Planning'. The other factor and the ORTOFIN score did not show any significant relationship. In the case of knowledge about savings bank balance, significant relationship (at .01 level) was observed in the factor 'Personal financial planning' and the ORTOFIN score. This is in line with the finding of Loix et. al., (2005). However, no significant relationship was observed with the other factor.

4. CONCLUSION

The discipline of Behavioural Finance has helped in evincing deep interest in the area of financial behaviour. ORTOFIN is a tool that has practical implications. For instance it can be used to understand the link with certain financial behaviours, counselling individuals, training in the area of financial management, and so on. Sulphey and Nisa (2014) are of the opinion that ORTOFIN could work as an effective tool to identify the various sections of the population, which could be ideal target for financial education programs. According to Faber & O'Guinn (1988) there is a direct link between orientation towards finance and consumer behaviours like compulsive consumption, credit abuse, etc. ORTOFIN could be a valid instrument to identify such behaviours.

A number of studies have identified the relationship between demographics and financial behaviour (Chen & Volpe, 1998; Dew, 2007; Loix et. al., 2005; Mahdzan, Tabiani, 2013; Sulphey and Nisa, 2014; Xiao, Tang & Shim, 2009). However, there is scant evidence about the relationship between financial behaviour and demographics from the Middle East in general and KSA in particular. The present study has succeeded in addressing this particular gap in literature. It is expected that the present study will trigger further research in the area.

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