Chapter 14
Determinants of Financial Management Behaviors of Families

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ABSTRACT

Today’s family income management is a central resource for welfare of family members. This study was performed to test the reliability and validity of the Turkish version of the Financial Management Behavior Scale (FMBS) developed by Dew and Xiao (2011) to measure individual’s saving, investment, and expenditure and debt behavior in family. It also examines the predictors of financial management behavior in family. The study was concluded over a total of 696 participants who are working at Government Office in Bursa-Turkey. The results of the factor analysis were composed of four subscales in accordance with original form of the scale. Reliability analysis showed that the FMBS had a high internal consistency (CronbachAlpha: .82; Split-half: .83) and split half reliability coefficient. The result of hierarchical regression analysis revealed that demographic characteristics, saving and investment decision, financial satisfaction and compared financial status were predicted of financial management behavior.

1. INTRODUCTION

Life satisfaction is one of the important measures of subjective well-being (Pavot & Diener, 1993). Given the positive effects of subjective well-being on several dimensions of life, researchers have become increasingly interested in studying specific factors that influence subjective well-being (Xiao et al., 2009). Environmental, social, cultural, and economic conditions are all under a permanent change due to globalization. Under these ever-changing conditions, in order for
families to maintain their current well-being or to improve it, it is necessary that obstacles standing in the way towards an increased well-being for individual family members be eliminated. In this regard, economic functions of families play an extremely important role in meeting their needs and wants that impact their overall quality of living (Terzioğlu, 1990, p.112; Özmete, 2004). However financial welfare of families is a more complex issues (Bailey, 1987), and families economic behaviors and financial satisfaction are most important determinants of welfare (Raijas, 2011; Bailey, 1987; Godwin, 1993). Families act in an environment of financing system which includes the pressure of the economic powers like the changing economic balances, increasing unemployment rate, changing purchasing power of money, inflationist pressures, increasing tax load, changing government policies, increasing interest rates, complicating consumer market, and the competence gradually increasing between the businesses (Goldsmith, 2000, p.108; Godwin, 1993; Terzioğlu,1990, p.112; Bailey, 1987; Raijas, 2011). In such an environment, the behaviors of family related to usage of the income affect both of social and economic welfare of family and the national economy and welfare (Çopur & Şafak, 2000; Becker, 1988).

Much of the literature on family financial management is prescriptive in nature, including extensive discussion of what families should do in managing their financial resources. Despite the importance of effective financial management in families’ lives, relatively little empirical research has focused on what families actually do. For instance, how meet family their needs? Is their income enough for meet their needs? How they use their income? Are they making saving with their finances resources? Why don’t they make savings? Are they in debt? Are they satisfied with their financial situation? In other words, it’s obvious that the financial decisions and behaviors of families will affect the macro micro economic decisions of families’ life. Families have to manage their finance in one way or another. Some tend to save a lot, some like to collect information before each purchase, some like to follow their gut feelings (Fünfgeld & Wang, 2009). According to Gunnarsson and Wahlund (1997) households as being financial actors, more or less active and more or less conscious of their behaviors. Patterns of households’ savings and debts may be viewed as expressing some sort of financial strategy, whether consciously or unconsciously practiced.

Therefore today’s family, income organization is a central resource for welfare of family members (Raijas, 2011; Heimdal & Houseknecht, 2003). Hira and Mueller (1987) reported that improved money management practices are more important than increasing the resources. Improving money management could be help families cope with financial difficulties and meet family needs. Thus, it is necessary to plan the usage of income for today and future, and to create a successful balance between consumption and saving in order to develop the quality of life and provide the financial welfare (Çopur & Şafak, 2000).

The economic function of families is a determinant of the households and individuals level of living (Yadollahi et al. 2009; Goldsmith, 2000, p.108). For this reason, the economic activities of family like saving, expenditure, and debt propensities and capacities are vital elements of family life (Çopur & Şafak, 2000; Bailey, 1987).

Western sociological research over the last few years has found that patterns of financial management and expenditure decision-making vary between different cultures, across social classes and over time. The reason for this is the fact that financial management within families is a demanding task where various knowledge and skills are needed. Control of the household budget bestows both power and responsibility (Clarke, 2002). Also financial management is recognized as having both mental and physical components (Deacon and Firebaugh, 1988, p.7). In practice, financial management is influenced by various factors, such as marital status, family income,