Individuals' Financial Behaviors and Their Causes: A Canadian Qualitative Study

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Abstract

This article looks at the financial behaviors of individuals and what drives them. A qualitative methodology was used, in which 18 semi-structured interviews with individuals of various profiles were conducted and analyzed. Our results show that attitudes, subjective norms, and perceived behavioral control influence people's financial behaviors.

Introduction

According to Kaur et al. (2023), individuals' financial behaviors are important because they underpin their financial well-being, which can be defined as "the perception of being able to sustain a current and anticipated desired living standard and financial freedom" (Brüggen et al., 2017, 229). Many researchers and organizations are interested in people's financial well-being as it is thought to be an important constituent of an individual's overall (subjective) well-being (Diener & Ryan, 2009). This perception of subjective well-being "can be both positive and negative, [and] include judgments and feelings about life satisfaction, interest and engagement, affective reactions such as joy and sadness to life events, and satisfaction with work, relationships, health, recreation, meaning and purpose, and other important domains" (Diener & Ryan, 2009). Many authors claim that financial well-being is a determining factor of overall well-being (see Netemeyler, 2018).

Unfortunately, current statistics reveal that many individuals, in Canada and elsewhere, are concerned about their financial well-being. For example, a survey conducted by the Financial Consumer Agency of Canada (2023) reveals that 46% of Canadians are worried about their finances and 43% say that their financial situation controls their lives. This gloomy outlook on people's financial well-being can also be observed in many other countries around the world. A Deloitte survey of individuals from 16 different countries from North America, Europe, Asia, Africa and Oceania shows that over 40% of respondents indicated that their financial well-being had deteriorated over the course of 2022 and that they considered their financial outlook for the near future as bleak (Pleters et al., 2022).

Since financial behaviors are important to people's financial well-being, it's relevant to understand in depth what drives them. We believe that a qualitative approach can provide new insights into what drives people's financial behaviors. In fact, our qualitative, interpretive methodology enables us to gain a deeper understanding of individuals' decision-making processes regarding their financial behaviors, while also considering the different aspects that influence their financial behaviors, the interrelationships that exist between these different components, and the external causes that may intervene in their decision-making processes.

The remainder of this article is organized as follows: section 2 presents the literature review. The theoretical framework, data and methodology are presented in section 3. In section 4, we discuss the research findings. Section 5 is devoted to our conclusions.

Literature Review

Several theories have been developed to explain individual behavior. This study focuses specifically on Ajzen's et al. (1980) theory of planned behavior, since it seems to apply well to the financial behaviors of individuals. Studies have used this theory in different behavioral contexts (Latimer & Martin Ginis, 2005; Quintal et al., 2010; Xiao et al., 2011). Some studies have also tried to improve its explanatory power by adding additional components (Carroll et al., 2000; Cucinelli et al., 2016; Dommermuth et al., 2011).

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Ajzen's et al. (1980) theory of planned behavior presents the various components that influence people's behavior. According to this theory, the intention to adopt a behavior influences the probability that the behavior will be adopted, along with the attitudes, subjective norms, and perceived control that influence intention. Figure 1 shows Ajzen's (1980) model and, as can be seen, having the perception of control also influences financial attitudes, and vice versa. What's more, having the perception of control can influence behavior either directly or through intentions. This model has found support in many fields to explain people's behaviors, including those related to finance (Cheon et al., 2012; Fishbein & Ajzen, 2011; Latimer & Martin Ginis, 2005; Quintal et al., 2010; Shih et al., 2022; Xiao et al., 2011). Since this study focuses on financial behaviors that influence people's financial well-being, we can appropriate this model by assuming that financial intention corresponds to individuals' motivation to adopt or not adopt financial behaviors that promote their financial well-being, so that the more motivated they are, the more engaged they will be in the decision-making process concerning the management of their personal finances and the more likely they will be to adopt financial behaviors that lead to this financial well-being. For its part, the intention to adopt certain financial behaviors will be influenced by the individual's attitude towards behaviors that promote financial well-being and the feeling of social pressure emanating from their peers regarding their financial behaviors. Financial behavioral intentions will also be influenced by the individual's perception of their control over their own financial skills, enabling them to adopt or not adopt healthy financial behaviors, and over the various external factors that can influence their financial situation and consequently their financial behaviors.

Methods

To achieve the objective of this study, an exploratory and interpretive qualitative research method was used. Data were collected from 18 individuals from different backgrounds, including 7 men and 11 women. To collect the data, we developed a semi-structured interview guide with dimensions revolving around financial behaviors and their causes. Data were collected during the winter of 2019. Interviews lasted between 30 and 45 minutes, with a maximum of 60 minutes. The data collected was transcribed using a faithful spelling system (verbatim). A thematic analysis method was used. This involved creating categories, sub-categories, themes, and sub-themes, and linking them together.

Results

The results of this study demonstrate that the components of the theory of planned behavior fit well with people's financial behaviors to the extent that financial attitudes, social pressures, and perceptions of control all influence individuals' financial intentions or behaviors.

Financial Attitudes

In terms of attitudes, the results identify five main ones that influence people's financial behaviors. The first attitude concerns priorities. For example, some individuals will give financial priority to their children, as expressed in the excerpt from Mrs. Smith: “Well, whatever my kids wanted to do, they did, I paid for them, and we scrambled for the rest.” Other individuals have priorities regarding their spiritual beliefs, such as avoiding debt, giving to their church, or being generous to others. Others emphasize that they are very concerned about the environment, which leads them to make different consumption choices, as Madame Line says in this extract: "I try to limit the plastic in the items I buy.” Finally, some people prioritize their financial situation: "I want to improve my credit and my personal finances" (Mr. Boris).

A second attitude relates to the relationship people admit to having with money. This is reflected in their spendthrift or thrifty nature, their level of materialism, the relationship between their income and their spending, and the income they allocate to expenses that are linked to their desires as opposed to their needs.

A third attitude identified in this study as influencing people's financial behavior is their philosophy of life. In this category, participants express the importance of enjoying life, or having a balanced lifestyle, as Mr. Langevin put it: "Sometimes you have to buy things other than the necessities, if you can't do anything to enjoy yourself, life isn't worth much." Many have a philosophy based on generosity. For them, it's important to help those close to them, such as family, children, and friends. Others share their beliefs about debt. On this point, many express their dislike of debt, as Mr. John put it: "I don't like debt," and Ms. Line notes: "It's not negotiable for us, we don't want debt." Some people's aversion to debt stems from their fear of it: "I'm afraid of debt" (Ms. Laura). Others acknowledge that debt is what enabled them to get the house they want. Another life belief concerns the importance of managing one's personal finances well. For many, it's important to be financially responsible and disciplined:

> I like to be in control (of my personal finances), that's what it's all about. Where my money is. I like to know how much money I have and how much I owe. It's important to me. (Mr. Serge)

Another attitude that influences financial behavior is desire. The results show that desires can manifest themselves in travel (Mrs. Bonenfants: “If I had the money, I'd do it, travel”) and the purchase of assets (Mr. John: "I'd like to have a new car, but I can't afford it"). Some discuss more-specific financial projects, such as building a house or investing in bees. Some hope to be more financially disciplined in the future.

Fifth, apprehension about credit cards, banks, debt, and interest influences financial behaviors. Laura puts it this way: "Because I don't like paying interest on credit cards, so that's why I don't take out loans." Figure 2 summarizes the different financial attitudes, highlighted in this section.

Like many previous studies (Dewi et al., 2020; Parrotta & Johnson, 1998; Shim et al., 2009; Siswanti & Halida, 2020), the results of this study confirm that attitudes influence financial behaviours but that attitudes go far beyond those related to budgeting, retirement, and savings.

Subjective Norms

In terms of subjective norms, the results show that close relations such as friends, spouses and parents exert an influence on people's financial behaviors: “I wanted the same thing as what Mr. and Mrs. had, and I got into debt because of it" (Ms. Gervais). Although the results show a number of social influences at the level of family and friends, the study participants talked a lot about influences within the couple. These influences can be both positive and negative.

> It was frustrating, we argued about finances, and he controlled me financially. I experienced financial abuse with this guy. He completely ruined me. Not completely ruined, but in the hole (Monsieur Boris).

> It's a compromise I made with her, I'd rather pay up front, but she says you accumulate points, Airmiles and all that, so you can afford to travel a little bit every four years. (Mr. Finney)

The results also reveal that certain fields of study, such as medicine and law, act as social pressure on people's financial behavior. This is what Madame Laura says about her son:

> My son calls me and says, "Mom, I'm here and I look out the window and I see Audis and BMWs. Every week, I must go to expensive restaurants to make group work. Mom, it's very expensive to do all the homework in restaurants."

People also feel social pressure towards society in general, which they see as materialistic. More specifically, participants explain that marketing strategies and social media increase their level of temptation. According to Ms. Britney, "Everything has become really accessible (marketing strategy), you know, there's a lot of temptation." For Ms. Line, the temptation is real: "…when you see on social networks all your friends traveling to the South."

Figure 3 summarizes the social pressures individuals mentioned as potentially impacting their financial behaviors.

The study’s results are consistent with several studies that find that certain social groups influence financial behaviors, including parents (Shim et al., 2010; Van Campenhout, 2015), the media (Hilgert et al., 2003), and peers (Lee & Cho, 2005). Further, and contrary to previous studies, the main agent of socialization is not parents (Shim et al., 2010; Van Campenhout, 2015) but mainly life partners. These divergent results may be explained by the fact that many studies on the subject focus on young adults, a group that is typically heavily influenced by their parents, even today. Indeed, social influences evolve over the life cycle and different results can be expected for different age groups (Churchill Jr. & Moschis, 1979).

Perceived Behavioral Control

Regarding perceived behavioral control, the results indicate that lack of knowledge and learning influence financial behavior. The verbatims show that participants feel a lack of knowledge about how credit cards, taxes, compound interest and retirement plans work.

> I maxed it out (my credit card), the bank was calling me, I couldn't make the payments, I didn't understand how a credit card worked. I thought they were asking me to make a payment to zero out my card (Mrs. Gervais).

This lack of knowledge leads them to feel an internal insecurity that contributes to making them feel that they are not in control. To counterbalance this effect, participants point to their education and life experience as learning experiences that contribute to their confidence. According to Boris, "It's a learning curve."

In terms of external perceived behavioral control, participants experience several personal situations that are to, a certain extent, beyond their control but that influence how they manage their personal finances, such as illness, divorce, employment, life stage, employer pension plans, relocations, and large student loans. Participants also discuss economic instability and financial markets as elements that influence their financial behavior beyond their control. Several participants also refer to the level of taxes they must pay, stressing that this is detrimental to their financial well-being. Participants also talk a lot about financial institutions, complaining that they don't care enough about their financial well-being and because these institutions are not sufficiently regulated, they take advantage of them (the client).

> But I just think that banks operate on a *we don't care about people* type of philosophy that I don't appreciate. (Mrs. Smith)

> It seems to me that financial institutions aren't regulated enough. They're there solely for profit, not for the well-being of consumers (Mr. Serge).

According to other participants, credit is too accessible: "Today, there may be too much credit available (Mr. Crosby). Figure 4 summarizes perceived internal and external behavioral controls that can affect people's financial behaviors.

These results are in line with those of Shim et al., (2010), who also find that the locus of control encourages behavioral intentions with regard to personal financial management and that financial knowledge is an explanatory factor of perceived behavioral control. Regarding the impact of perceived external behavioral control, our results are in line with those of McNair et al. (2016), who find that perceived external behavioral control influences consumption patterns and debt reduction; they are also in line with Sivaramakrishnan et al. (2017), who found that trust in the market, as measured by trust in regulators, influences behavioral attitudes towards investment. As we have seen in this section, this study highlights several other external perceived behavioral control factors that influence people's financial behaviors.

Results

This study looks at people's financial behaviors and what motivates them. The preliminary results of this qualitative, interpretive study show that Ajzen's (1980) model of planned behavior fits well with the data in our study, since attitudes, subjective norms and perceived behavioral control all seem to influence people's financial behaviors.

Our analysis of the results allows us to identify specific financial attitudes (priorities, relationship with money, life philosophy, desire and apprehension), the various sources of social pressure (emanating from people close to the individual, their field of study, society, marketing, and social media), and the perceived internal and external controls (such as a lack of financial knowledge, learning capacity, personal situation, financial market, government, and financial institution) that influence people's financial intentions and behaviors. This qualitative study provides an in-depth understanding of the causes of certain financial behaviors by contextualizing them in terms of the experiences expressed by various individuals.

Limitations and Future Research

Our qualitative research methodology does not allow us to generalize our results, however, observing people's financial behaviors from a qualitative perspective, has enabled us to gain a better understanding of what influences their financial behaviors. Future research could build on these findings to develop quantitative research with generalizable results. Future qualitative research could also seek to understand the point of view of various groups of individuals such as the elderly, young adults, and immigrants, to better understand what drives or motivates them to adopt certain financial behaviors.

Implications

People's financial behaviors influence their financial well-being; they also influence countries' economic stability. The results of this study can provide useful recommendations to policy makers and various stakeholders who can influence, in one way or another, the adoption of behaviors that promote the financial well-being of citizens.

More specifically, the results of this study can be useful in developing educational content to encourage young people to adopt financial behaviors that promote their financial well-being. The results also imply that educational interventions must also be multidimensional to reflect the different dimensions that have impacts on financial behaviors (Warmath & Zimmerman, 2019). In terms of the financial sector, the results suggest that all banks should have a business model that prioritizes clients' financial well-being. Banks should also limit excessive lending to their clients to avoid the adverse effects this can have on longer-term financial well-being. The results can also be used by policymakers and government bodies to develop policies that promote financial well-being. These results are in line with those of Davies (2015), who argues that certain decisions made by the financial industry and governments can help promote people's financial well-being. Finally, our findings are relevant to raising awareness in society at large about adopting financial behaviors that promote financial well-being.

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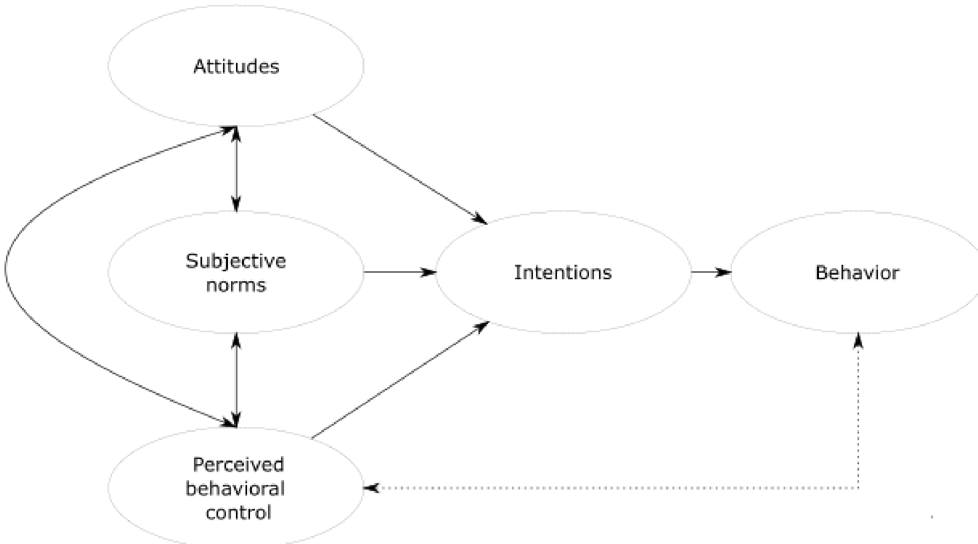
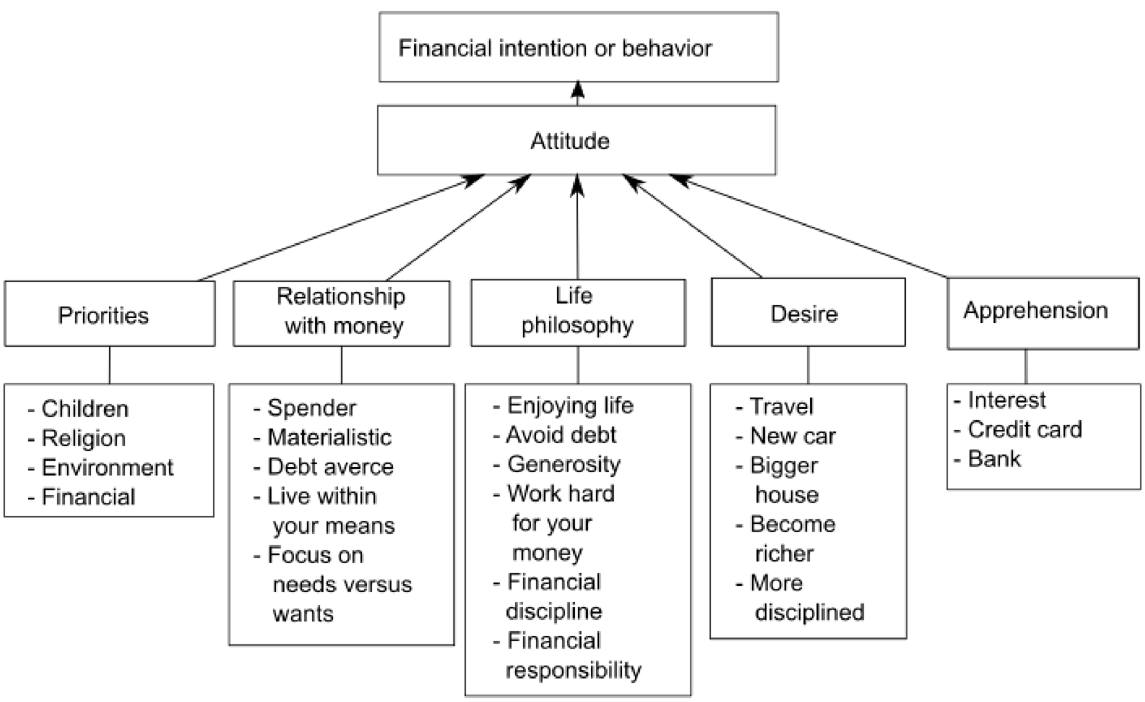
Figure 1: Ajzen model of planned behavior



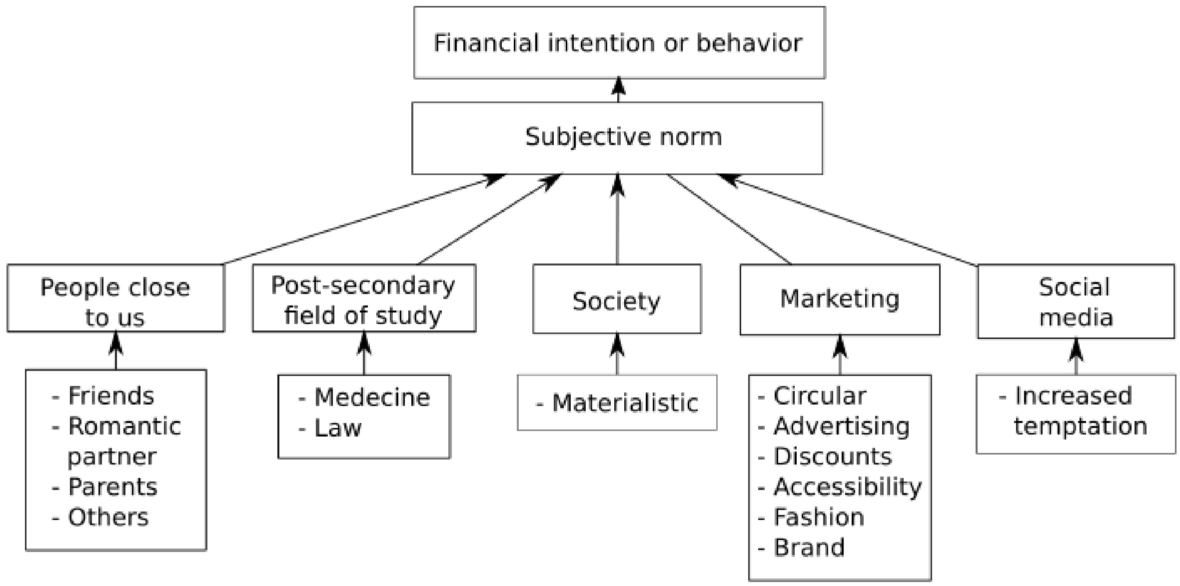
Source : Ajzen et al. (1980)

Figure 2: Financial attitude



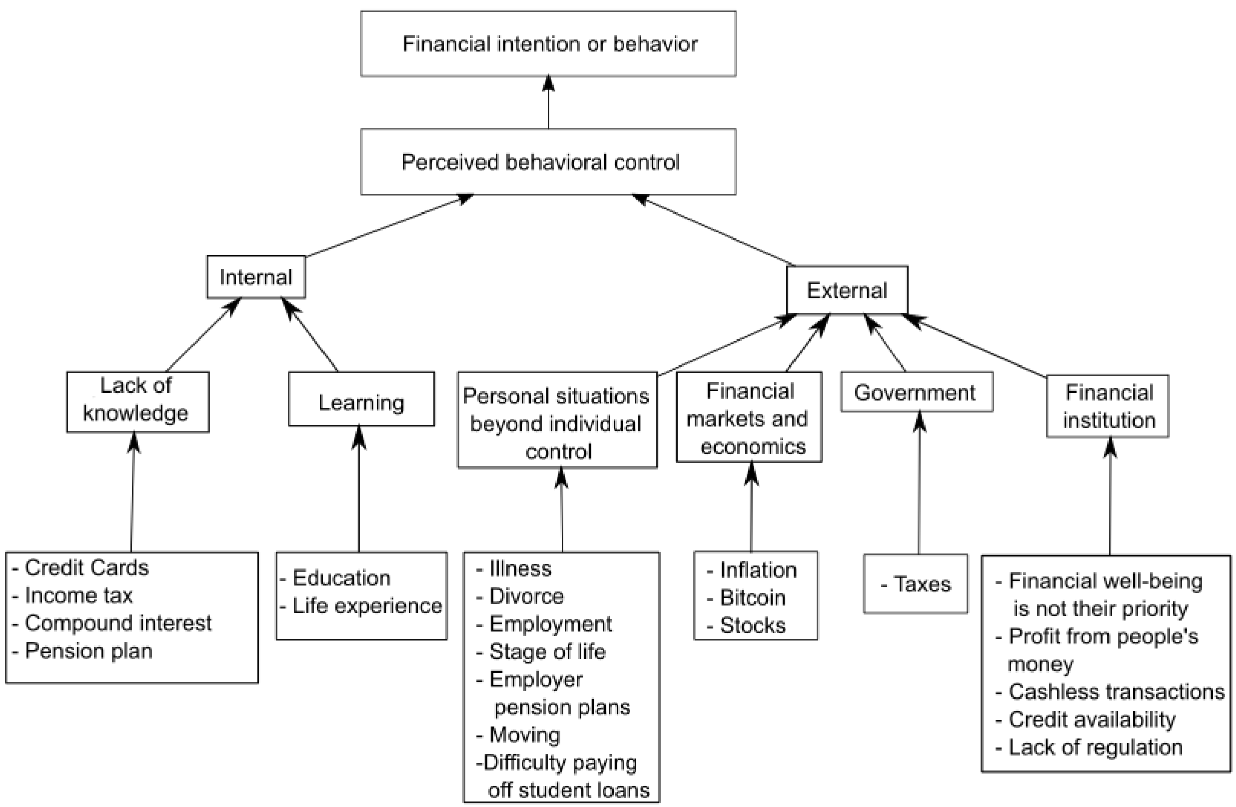
Source: the authors

Figure 3: Subjective norm



Source: the authors

Figure 4: Perceived behavioral control



Source: the authors