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What Determines Household's Financial Behavior? A Case of Punjab, Pakistan

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ABSTRACT

The **purpose** of this paper is to answer, what determines financial behavior of Pakistani Households? Considering the interpretivism as epistemological considerations, subjectivism as ontological considerations, and induction as research approach, this study employs the qualitative research methods. 38 semi structured interviews are conducted. The results suggest that financial planning of households in Pakistan is determined by demographic and macroeconomic factors. Intentions, society and culture influence household spending, and the special purpose and availability of savings determine their savings behavior. The literature is inconclusive regarding the determinants of household financial behavior, primarily because of differences in culture. This emphasizes the importance of separately studying household financial behavior in settings of Pakistan. The originality lies in exploring the factors in determining Pakistani households' financial behavior.

Keywords: household financial behavior; household financial planning; household spending behavior; household saving behavior

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INTRODUCTION

"Households are central to our understanding of Finance" [1]. As per the Household Integrated Economic Survey of Pakistan (2013–2014), a household is a single person or a group of persons. A single-person household is one where an individual makes provision for his/her living essentials, including food, without combining them with any other individual, and without any usual place of residence elsewhere. A multi-person household is a group of two or more individuals who make some joint provision for living essentials without a regular place of residence elsewhere.

According to the traditional economic utility models, a household is expected to be a single unit of decision-making that pools all financial resources together to achieve utility maximization [2, 3]. As per the assumptions of these models, the household head makes financial decisions on behalf of other members [2]. A single-person household's financial behavior is very different from that of a couple or married household because marital status and having kids affect financial resources, household needs, individual preferences, and risks [4]. Theoretical and empirical literature also found that money/financial management within married households are more

complicated than the money/financial management of a single individual [5].

The characteristics that affect financial behavior (money management and financial decision making) are not just economic factors, but also psychological, non-psychological and situational factors. Factors affecting financial behavior also includes the situational factors and personality traits of an individual [6], cognitive abilities [7], socio-demographic factors [8], behavioral factors [9], and cultural settings [10]. A list of socio-cultural factors is acknowledged as important determinants of household financial behavior. These factors include religiosity [11], mood states [12], social interaction [13], and trust [14]. We can conclude from existing literature that households, do not behave (in terms of saving and investing) as per the normative models (for details, see [15]), showing that normative economic models fail to explain household financial behavior.

At the same time, family system theories suggest environmental factors (like culture, community and the state of the economy) affect households' financial behavior [16–19]. Here, it is important to mention that households' financial behavior varies across different cultural settings [10]. Researcher [20] defines culture as a set of beliefs that determine the multiple behaviors of individuals/groups of individuals, and financial behavior is one of them.

Moreover, [21] highlighted the role of culture in households' financial behavior. A study [22] found similar results and showed that culture and gender play an important role in determining household financial behavior. Examples of cultural differences in household financial behavior include personality trait such as individualism/collectivism, rituals of spending money, and beliefs regarding money. These differences have been highlighted in foreign-born and native couples [23].

Another cultural factor, trust, is also found to be a determinant of household financial behavior. A study [24] established that trust has a significant effect on financial behavior. The importance of cultural effects is strengthened by [25] which depicts that households retain the cultural effect of their home country while moving across the border and shows a low tendency to adopt the cultural effect of the host country.

Literature found that social capital-intensive area's resident Italian households invest a small percentage of their wealth in cash and a large percentage of their wealth in stocks [26]. Further [26] also found a significant positive relationship between trust and the household's participation in the stock market. A study [14] added to this strand of literature by connecting sociability and trust to the significant regional differences in stockholding and concluded that to study households' stock-market participation, sociability, and trust must be taken into account. However, there remain some persistent and anomalous differences across countries [27].

In short, the literature is inconclusive regarding the determinants of household financial behavior, primarily because of differences in culture. This emphasizes the importance of separately studying household financial behavior in Pakistan. The objective of this study is to explore the factors determining Pakistani households' financial behavior. This leads to our research question: what determines households' financial behavior among Pakistani households?

It is argued by [28] that the behavior of households varies when they face different financing options. The behavior of households residing in developed and developing countries may be different because their living conditions are different, their income structure is different, and their financing opportunities are different. Different studies suggest that household behavior varies across different cultural settings [29–31].

A limited number of studies examined the behavior of household finance in developing and emerging economies and like Pakistan. Most of the studies have investigated household finance norms and behavior for individuals living in developed countries. One of the main reasons for limited literature in emerging and developing market economies is that researchers lack the information required to conduct this type of analysis. This literature gap motivates us to explore the factors involved in determining the financial behavior of Pakistani households. A study [32] found that Pakistani household saving and borrowing are far different from saving and borrowing in other developed countries' households.

Pakistan is a developing nation; thus, it is crucial to consider how Pakistani households may satisfy their financial obligations. Pakistani households have few resources, and those with extra money do not know where to put it to use. More specifically, talking about the scope of the study, this study is limited to the Punjab province of Pakistan, a province rich in culture. The reason for choosing only this province is that Punjab (the land of five rivers) is the biggest in terms of land area and in terms of culture too. According to population, 52.9% of the total country's population is situated in Punjab Province. A total of 36 districts are in Punjab, which cumulatively contributes approximately 54.2% of the GDP of Pakistan.

As per the population welfare department, a total of 32,205,111 households are in Pakistan, out of which 17,103,835 (53.11%) households are part of Punjab. So doing a study in the context of household financial behavior and exploring household financial behavior, Punjab is considered the most suitable representative province of Pakistan.

METHODOLOGY

Considering interpretivism as epistemological considerations and subjectivism as ontological considerations, the current study adopts an inductive approach with the aim of exploring the determinants of household financial behavior in Punjab, Pakistan. The population consists of Pakistani households, including individuals and groups of individuals, and the sample of study is lower mid-class households with a minimum of two family members. 38 interviews were conducted for this purpose. The interviews lasted 52 minutes on average. Keeping in view the COVID-19 restrictions, interviews are done via Zoom meetings and telephone.

All interviews are conducted in regional languages, recorded (with the consent of the interviewee), transcribed in regional languages, and translated into English. Great care is taken in translating the responses of interviewees in order to maintain the natural quality of the interviewees' contributions. The questions asked of interviewees are added in the *Appendix*.

For an exploratory nature of study, semi-structured or unstructured interviews are considered suitable [33, 34]. This study uses the semi-structured interview guide as a data collection instrument consisting of pre-structured, open-ended questions. It has the flexibility to add some more questions on the spot that must evolve from the conversation between interviewee and interviewer. Interviews are taken until the point of saturation. It is a point where additional data collection does not contribute to understanding the issue under investigation [35]. This point may conclude the number of interviews to be conducted in this study. In this study, saturation comes from 38 interviews.

The participants were invited for interviews through telephone calls. Upon receiving confirmation of the time, the researcher conducted interviews via Zoom meetings and phone calls. Before starting the interview, the respondent was to ensure that his/her identity would not be revealed on any platform. Further, the researcher gave a detailed briefing to the interviewee regarding the aim and objectives of the study and interview.

For the purpose of the purpose of qualitative data analysis, this study employs thematic analysis (TA) approach. TA is a method for systematically identifying, organizing, and offering insight into patterns of meaning (themes) across a data set. The initially generated themes are reviewed again and again to shortlist and finalize them. The final themes are explained in the next section.

RESULTS AND DISCUSSION

Thematic analysis of the data gathered via interviews reveals interesting findings in exploring the determinants of household financial behavior. While asking the questions, household financial behavior was split in three elements: household financial planning, household financial spending, and household saving behavior. *Table* provides the profile of respondents, including their gender, occupation, education, marital status, and approximate monthly income.

Exploring household financial planning, authors found households with a lower income were more conscious of

financial planning and implemented the plan as it was, as compared to households with a higher income bracket. As an interviewee said "Yes, we definitely make a plan at the very start of each month. We start with enlisting all the expenses to be occurred in each month and separate a fixed amount for each head and try to strictly follow the plan." And another interviewee said "No, we don't make a plan at all. We spend as the expense occur." A clear difference could be seen between the two narratives of two different interviewees. The former interviewee who is strict about planning is the one whose monthly income is almost half of the monthly income of the later interviewee. Likewise, the households of older age were more interested towards planning for the purpose of purchasing property as compared to young households. It was found that households with kids showed a sense of responsibility towards making the financial plan at the beginning of each month as compared to households that were unmarried, or married but had no kids. Uncertainty was also seen in these respondents, whose income sources were uncertain, like income from any business as agriculture. While a different behavior was found in the group of respondents whose income source was defined or fixed (i.e. salary from job). Such respondents were quite sure in making the monthly plan.

So, the authors identified the income level, source of income, number of family members, having kids, and age as playing roles in determining household financial planning. These factors could be summed up as demographics. In a nutshell, demographics play an important role in determining household financial planning. These findings are consistent with prior findings in which demographics were found to be determinants of household financial planning. First, a study by [9] in Dutch families in the Netherlands indicated that while saving behavior is much more prevalent among baby boomers, it falls with age for all people. As a result, age and financial planning have a connection to saving habits and money management. Age is a crucial factor influencing retirement planning, according to [36]'s research of Malaysian health sector employees. Age is a crucial component, and it is consistent that as a person's age increases, he or she gets more responsible in their financial activity, according to [37], a study on the factors influencing investors' financial behavior in India. Age is positively correlated with risk aversion, which has an impact on investment planning because older investors are less willing to take risks

Table

Profile of Respondents

Gender	Occupation	Education	Marital status	Approx. monthly income
M	University Lecturer	M.Phil.	Married	100,000 to 150,000
M	University Lecturer	PhD	Unmarried	700,000 to 800,000
M	Agricultural man	M.Phil.	Unmarried	130,000
M	College Lecturer	PhD	Married	83,000
M	Banker	MS	Married	180,000
M	Businessman	MBA	Married	100,000
M	Hospital	MS	Unmarried	80,000
M	Teacher	MS	Married	45,000
M	Banker	MS	Married	300,000
M	Lecturer	PhD	Married	118,000
F	Admin Officer	MA	Married	80,000
F	Teacher	MSC	Unmarried	50,000
M	Teacher	MBA	Married	45,000
M	Senior Subject Specialist	MSc	Married	200,000
M	Businessman	BSc	Married	70,000
F	Principal	MSc	Married	45,000
M	Engineer	MS	Unmarried	180,000
M	Lecturer	MS	Married	250,000
M	Resident auditor	Masters	Married	90,000
F	Doctor	MBBS	Married	175,000
M	Lecturer	PhD	Married	250,000
F	Housewife	MA	Married	130,000
F	Lecturer	MS	Married	150,000
F	Lecturer	MS	Married	54,000
F	Lecturer	MS	Married	125,000
F	Lecturer	MS	Unmarried	86,000
M	Accounts Officer	MS	Married	86,000
M	Manager	BS	Married	200,000
F	Assistant Professor	PhD	Married	250,000
F	Lecturer	MS	Married	280,000
F	Lecturer	MS	Married	190,000
F	Assistant Professor	PhD	Unmarried	250,000
F	Staff	MBA	Married	100,000
F	Exam Head	MBA	Married	90,000
F	Program Coordinator	MS	Married	180,000
M	Assistant professor	PhD	Married	250,000
M	Assistant professor	PhD	Married	175,000
M	Assistant professor	PhD	Married	200,000

Source: Compiled by the authors.

than younger investors, according to an empirical study [38] of demographic influences on risk attitudes among Indian investors in India. However, a study [39] found that among Malaysia's Generation Y, age has no influence on retirement planning, in contrast to the findings of this study [36].

Other than demographics, interviewees mention inflation affecting their planning behavior. Inflation tells us how much prices have changed year-over-year. It's noticeable in the cost of everyday things. However,

a more sudden increase in inflation can cause financial stress, due to sharper increases in the cost of living. It is important to consider what the impact of inflation will be on what you plan to spend your money on. A change in inflation will change the cost of your financial goals. Even if inflation is ignored, the financial budget is the same for all years. Planning changes as the financial goal changes. Like many of the respondents, who have younger children, their financial plans change with the cost of their children's education. And when the impact of inflation

is added, obviously, the financial plan changes over time.

In the current economic condition, the inflation rate is unexpected, which is also highlighted by the respondents, “as you know the condition of inflation, prices of every item are getting higher and higher day by day. It becomes very difficult to forecast the future or even make plan about the future... But... income is limited so we make a rough plan and we know that things will not happen as per plan”, “in the current inflation condition of Pakistan, it is wastage of time to make a plan because plan does not work et al”, “you are also well aware about the inflation condition of Pakistan. It becomes very harder to even survive. So, we consider to prepare a plan compulsory in order to spend the month peacefully.” Authors can emphasize the importance of inflation in making household financial plans. Some of the respondents are afraid of the failure of their financial plans due to the unexpected economic condition of Pakistan, but the authors emphasize the importance of doing financial planning in order to avoid any hassle.

Moreover, when exploring household spending behavior, respondents mention that they intentionally do the savings, some respondents mention that their way of saving is “committee”, which is also named “forced savings”. Some also mentioned that in making the monthly financial plan, they have a separate head of savings. So, authors can say that households are intended towards savings, depicting that saving behavior is determined by household saving intention, and intention is a main construct of the theory of planned behavior. The theory of planned behavior (ToPB) was presented by paper [40], stating that a person’s behavior is determined by her/his behavior intention. ToRA, which Fishbein first introduced in 1967 and which was further defined, expanded, and tested in the 1970s, is essentially what ToPB extends. It was presented by Fishbein and Ajzen in a book [41].

Results find social influence to be a factor in affecting the spending behavior of households. As interviewees stated that “... yes... it happens... when close relatives go on outing then our children make us force to go for outing and we have to do it...”, “not so much... but it happens...”. Literature also finds the social influence as a critical factor of consumption [42]. In the case of social influence on household consumption/ spending, households’ matter, and family’s matter.

The authors identify some religious motives that determine the household’s sending behavior like Qurbani

on Eid Ul Azha, charity, zakat, donations etc. interviewees stated that “in the month of zil hajj, we do slaughter”, that is the spending that not comes in every month, so our every month spending does not include it but we do saving because we that at the time of slaughter, we have to arrange the amount...”, “in every year, there are some expenses like slaughter on Eid Ul azha”.

For Muslims around the world, Eid-ul-Azha is a holiday with significant social, personal, and religious connotations [e.g., 43, 44]. Literally translated as “holiday of the sacrifice”, Eid-ul-Azha occurs on the tenth day of Zil Haj, the last month of the Islamic calendar, during which countless numbers of Muslims journey to Makkah each year to undertake the Haj and offer qurbani (sacrifice). These practices have their roots in Muslim tradition thanks to the Prophet Ibrahim (peace be upon him), who was willing to follow Allah Almighty to the point of sacrificing his own son, the Prophet Isma’il (peace be upon him). In the end, Allah permitted the substitution of a ram for Isma’il. Ibrahim and Isma’il afterwards rebuilt the Kab’ah (Cube), which for Muslims is the House of Allah and was initially created by Adam, where this incident took place (or, some say, by angels). Ibrahim was then given the order by Allah to proclaim that everyone should make the trip to this location (Quran 1977:22:27).

Interviewees stated that “we do spend some amount in terms of zakat each year”, “...some spendings like Zakat, charity, donations, feeding poor...”. Muslims residing all around the world adhere to and practice Islam as their religion. According to the principles provided by Islamic scriptures, it is the responsibility of the state and of individuals to make financial contributions to the needy and underprivileged members of society through the practice of Zakat [45].

Another type of charitable giving is the sadaqah, which can be done in a number of ways, including donating old clothing, giving money, or giving food to those in need. The main reason for performing a sadaqah is to protect oneself from evil spirits. Another type of charitable giving practiced by Muslims is called kaffara, which might involve giving someone money or other forms of assistance after an oath has been broken. Last but not least, Waqf is an additional type of charitable giving in which mosques, hospitals, or any other type of social institution are built for the benefit of society as a whole [46]. Religious practice, and Zakat in particular, which has a strong capacity to build bonds between community members, makes its

practitioners happy and joyful [47]. Islamic scriptures do a good job of highlighting the significance of zakat. In line with what the Qur'an says: "And establish prayer, give Zakat, and bow with those who bow (in devotion and obedience)" (Al-Qur'an: Surah Al-Baqarah, Verse 43, and Chapter 02).

Further exploring household saving behavior, it was found that when saving guidelines are followed, households are considerably more likely to save than when they don't. Interviewees stated that "in case we have to purchase a certain thing, ...recently I renovated my house I need a sum of amount, so we made a plan for saving", "we made a plan to purchase a plot. We did forced savings and finally we got it", "in Pakistan, if a person wants to alive, he/she must have second source of income". The likelihood of saving increases typically when one has particular saving goals, such as retirement, but the impact differs depending on the saving goal. Predictable expenses have a somewhat beneficial impact on the likelihood of saving. These findings support [48]'s findings that the most significant predictor of an increase in the likelihood of saving among the poor was the presence of a justification or motive for saving.

Further, interviews stated that "we do save to meet any emergency situation", "there could be any medical or any other emergency in home, that's why I prefer to have some amount in cash in savings", "we save for any urgent need". These findings go in line with the buffer stock theory of savings. Studies [49–51] demonstrated that target saving behavior can appear for both finite and infinite horizon models with reasonable parameter values. Using the same model and different data, [52] estimate the model and find that the buffer-stock saving phase of life lasts from age 25 to roughly age 40–45. A study [53] reports that the median household's target saving behavior continues into its 50s. In the research (e.g. [54–70] on household saving), the precautionary motive "to accumulate a reserve against unanticipated contingencies" has taken on a significant role.

CONCLUSION

This study explores the determinants of household financial behavior among Pakistani households and finds multiple determinants, including demographics, macro-economic factors, intention, social motives, religious motives, cultural motives, special purpose, and wealth increments, as the main determinants.

Household financial planning (HFP) is vital to maintaining stable financial behaviors in a household. Household financial emergencies or even financial crises at the household level could also be managed with proper financial planning. In today's financial condition in Pakistan, financial problems are very common. These may include paying bills for necessities (i.e., electricity bills, fuel bills, medical bills, grocery bills, etc.). To protect oneself from such financial distress, it is important to make a plan very carefully.

Household financial planning is a tool for household financial decision-making. Good household financial planning leads to satisfactory household financial behavior. Household financial planning plays a very important role in household financial decision making. It includes different aspects, including planning for family, planning for kids' education, investing, wealth accumulation, borrowing, repayment of borrowing, planning for children's marriage, saving for the future, etc. Financial planning provides a strategy for achieving financial objectives at various stages of life.

Apart from financial planning, spending and saving are also important aspects of household financial behavior that are explored in this study. Demographics, macroeconomic factors, intention, socio-cultural and religious factors, special purpose, and buffer are found to be major determinants of household financial behavior.

This study has several practical implications. Firstly, information on household financial behavior can help policymakers and financial institutions design targeted interventions to improve the financial well-being of vulnerable populations, such as low-income households, women, and the elderly. Secondly, understanding the financial behavior of households in Punjab, Pakistan can help policymakers make informed decisions about financial inclusion, consumer protection, and financial regulation. Last but not least, knowledge of household financial behavior can inform the design of financial products and services that are more suited to the needs and preferences of the population.

Well, this study has several limitations and future research directions. First, this study is a qualitative attempt. Qualitative research has its own kind of limitations. Secondly, this study takes interviews with respondents from the Punjab province of Pakistan. Future researchers could apply this study to other provinces, results could better represent the conclusion about Pakistani

households. Thirdly, the scope of household financial behaviors is limited to household financial planning, spending, and saving behavior. Some other aspects, like investing and borrowing, are not included in the scope. Future researchers could enhance the scope and get more comprehensive results.

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APPENDIX

Survey Questions

1. Do you make any plans for monthly spending?
2. What kind of planning do you do?
3. Do you make the proper paperwork for planning? Or just mental work?
4. Why do you prefer this kind of planning?
5. Who is the major player in planning?
6. Do you strictly follow the plan?
7. Do you do savings?
8. How do you do savings?
9. Do you prefer to have savings in the form of cash or prefer to invest?
10. Why did you wish to invest?
11. In which sector? Why this sector?