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by Christina Heti Tri Rahmawati

Submission date: 28-Apr-2022 03:32PM (UTC+0700)

Submission ID: 1822675439

File name: The_Influence_of_Financial_Literacy_INOVASI-November_2019.docx (47.52K)

Word count: 3339

Character count: 20228

The influence of financial literacy on the personal financial management of government employees

Caecilia Wahyu Estining Rahayu^{1*}, Christina Heti Tri Rahmawati²

^{1,2}Faculty of Economics, Santa Dharma University, Yogyakarta.

¹Email: caecilia50@gmail.com;

²Email: christinaheti.nugroho@yahoo.co.id

Abstract

Financial literacy is a combination of financial knowledge, financial attitude and financial behavior that every individual needs in order to avoid financial issues. In performing personal financial management appropriately, a person can improve the quality of his life. This research aims at examining the effects of financial knowledge, financial attitude and financial behavior on the personal financial management of government employees in Kalibawang Community Health Center. The population of this research is every active government employee in Kalibawang Community Health Center and the sample is 50 of them. This research uses a questionnaire and sampling method by means of a saturated sampling technique and applies Multiple Linear Regression analysis. In the results of this research, it is found that the financial attitude and financial behavior had a positive and significant effect on the personal financial management of government employees in Kalibawang Community Health Center. Otherwise, financial knowledge has a negative and insignificant effect on personal financial management. These results are expected to provide insight on the government employees in Kalibawang Community Health Center that better financial attitude and financial behavior of the government employees do influence to better their personal financial management.

Keywords: Financial literacy; financial knowledge; financial attitude; financial behavior; personal financial management

INTRODUCTION

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Financial literacy is a set of financial skills and knowledge applicable in money management and spending as a part of life standard improvement effort in achieving prosperity (Lusardi and Mitchell, 2014). The application of financial literacy helps people in terms of personal financial planning management to control financial expenses and ultimately improve the quality of his life. According to Gilman, personal financial management (cited in Yushita, 2017: 14) is the art and knowledge of managing financial resources of individual units. Therefore, in managing personal finance effectively and efficiently, one needs self-control. It is very likely that individuals with good control over personal financial expenses possess a high level of financial literacy. This ultimately improves his/her life quality. In other words, financial literacy is connected with personal well-being. This is in line with the results of the research conducted by Navickas et al. (2013) that stated that a high level of awareness or financial literacy produced positive effects on the management of personal finance that ultimately improve the quality of life in the long term. According to Atkinson and Messy (2012) of OECD (Organization for Economic Cooperation and Development), financial literacy is a combination of financial knowledge, financial attitude, and financial behavior. This is in line with the result of the research by Wiharno (2015) that stated that financial literacy had significant positive effects on personal financial management. Meaning to say, in which the level of personal financial management is determined by the linkage, interaction, and variation among financial knowledge, financial attitude and financial behavior.

Financial knowledge is an understanding of financial terms and concepts necessary in everyday use in social life (Bowen, 2003). Financial knowledge encompasses personal financial knowledge, including knowledge on the management of income and outcome, and knowledge on basic financial concepts, such as time value of money, interest paid on a loan, compound interest, risk and return, inflation, and liquidity of an asset (Wagland and Taylor, 2009 cited in Yushita, 2017). According to Margaretha and Pambudhi (2015), financial knowledge is indispensable for individuals in order to properly manage and exploit financial resources in their possession. Financial attitude is the implementation of financial principles to create and maintain value through the good decision-making and management of resources (Rajna, 2011). Individuals with good financial literacy have a better and wiser sense of responsibilities in managing their personal finance and have the capability to improve the quality of their life (Hilgert, 2003 cited in Ariani, 2015). According to Wiharno (2015), financial attitude is the attitude towards money and future planning. Financial behavior is human behavior in terms of money management (Xiao, 2009). Financial behavior is connected with financial responsibility on financial management (Ida and Dwinta cited in Andrew and Linawati, 2014: 36). Individuals with good financial behavior (such as paying bills on time, regularly recording expenses and maintaining emergency funds) are more careful and pay more attention to the level of risks and benefits in managing their finance.

A high level of consumerism in Indonesia may result in the emergence of various ill-advised financial behaviors, such as limited knowledge of personal financial management, and the lack of saving the culture. The financial literacy index of Indonesia is still below standard. OJK (Financial Services Authority) records that in 2016, the new public financial inclusion index was at 29.7% and financial literacy at 67.8% (Source: <http://keuangan.kontan.co.id/news/ojk-literasi-keuangan-masyarakat-masih-rendah>). The lack of knowledge about financial literacy is a serious problem since financial literacy has positive effects on inclusion and financial behavior (Yushita, 2017). So, in order to maximize the values of time money and acquire profit, people need to conduct the planning and management of personal finance properly. Insufficient knowledge about financial literacy is a big challenge for the people of Indonesia. Mendari and Kewal (2013) stated that financial education is a long process that encourages individuals to set financial plans for the future in order to balance the welfare with everyday habit and lifestyle. The implementation of financial education in the effort to improve the financial literacy of the people of Indonesia is vital. In accordance with the above description, this research aims to test the influence of financial knowledge, financial attitude and financial behavior on the personal financial management of government employees in Kalibawang Community Health Center.

Literature review

Financial knowledge with personal financial management

Financial knowledge is the basis of critical factors in financial decision-making (Siahaan, 2013). Insufficient knowledge about finance will result in financial losses, such as wasteful and consumptive spending. Therefore, financial knowledge in managing personal financial planning is vital. It enables individuals to control their personal financial expenses that ultimately improve their standard of living, Yushita (2017). In accordance with the above description, below is the first hypothesis.

Hypothesis 1: Financial knowledge has significant positive effects on the personal financial management of government employees in Kalibawang Community Health Center

Financial attitude with personal financial management

Financial attitude is the implementation of financial principles to create and maintain value through good decision-making and management resources (Rajna, 2011 cited in Wiharno, 2015). A good financial management attitude begins with short-term and long-term financial planning. This type of attitude allows people to avoid being trapped permanently in consumptive financial behavior and to manage their personal finance well, ultimately improving their quality of life. Based on the above description, below is the second hypothesis.

Hypothesis 2: Financial attitude has significant positive effects on the personal financial management of government employees in Kalibawang Community Health Center

Financial behavior with personal financial management

Financial behavior according to Xiao (2009) cited in Wiharno (2015) is defined as human behavior in connection with money management. Better financial knowledge leads to the improvement of financial behavior in a person, such as paying bills on time and maintaining emergency funds (Yulianty and Silvy, 2013). Therefore, it encourages people to perform better in terms of their financial management. Based on the above description, below is the third hypothesis.

Hypothesis 3: Financial behavior has significant positive effects on the personal financial management of government employees in Kalibawang Community Health Center

METHODS

The population of this research is all active government employees in Kalibawang Community Health Center. The samples of this research are 50 respondents or equivalent to the total number of the population. The sampling method is a saturated sampling method. In this research, only primary data are used i.e., data collected directly from respondents using a questionnaire.

Subsequently, the influence of dependent variables on independent variables was tested by conducting Multiple Linear Regression Analysis. Prior to Multiple Linear Regression Analysis, a classic assumption test was performed on the existing data (Santosa, 2015): normality test, heteroscedasticity and multicollinearity test. After the classical assumption test and all the requirements were met, the multiple linear regression analysis was carried out to analyze the effects of the independent variables (financial knowledge, attitude, and behavior) on the dependent variables (personal financial management). Below is the formula put to work:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Description:

- Y = personal financial management
- X₁ = financial knowledge
- X₂ = financial attitude
- X₃ = financial behavior
- b₁, b₂, b₃ = regression coefficient
- e = error

Notification:

- H1: is financial knowledge has significant positive effects on the personal financial management of government employees in Kalibawang Community Health Center
- H2: is financial attitude has significant positive effects on the personal financial management of government employees in Kalibawang Community Health Center

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H3: is financial behavior has significant positive effects on the personal financial management of government employees in Kalibawang Community Health Center

RESULTS AND DISCUSSION

Based on the data collected by using questionnaire, the respondents' characteristics are presented as:

Table 1. Respondents' characteristics

Based on	Group	Amount	Percentage
Gender	Men	17	34%
	Woman	33	66%
Age	20 to less than 30 years	5	10%
	30 to less than 40 years	14	28%
	40 to less than 50 years	22	44%
	50 years or more	9	18%
Education	Senior High School/Vocational High School	22	44%
	Diploma/ D3	20	40%
	Bachelor	8	16%
	Master	0	0%
	Others	0	0%
Income	< Rp 1.000.000,00	9	18%
	Rp 1.000.000,00 – Rp 2.999.999,00	16	32%
	Rp 3.000.000,00 – Rp 4.999.999,00	22	44%
	≥ Rp 5.000.000,00	3	6%

The data in this research were collected by giving out a research questionnaire directly to the respondents, active government employees in Kalibawang Community Health Center. The number of respondents in this research was 50 persons consisting of 17 male respondents (34%) and 33 female respondents (66%). Most of them aged between 40 and less than 50 years, and their education was senior high school/vocational high school, with income were around Rp 3.000.000,00 – Rp 4.999.999,00.

This research instrument or questionnaire should be tested before it is used to collect the data. This testing method is called validity and reliability test. The result from the research instrument which has been tested using this method is presented in Table 2.

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Table 2. The result of validity and reliability test of questionnaire items of financial knowledge, financial attitude, financial behavior and personal financial management

Variable	Total of questionnaire items	Information
Financial Knowledge	7	Valid and Reliable
Financial Attitude	7	Valid and Reliable
Financial Behavior	10	Valid and Reliable
Personal Financial Management	9	Valid and Reliable

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The table 2 shows that all questionnaire items of Financial Knowledge, Financial Attitude, Financial Behavior, and Personal Financial Management are valid and reliable. If questionnaire items of Financial Knowledge, Financial Attitude, Financial Behavior and Personal Financial Management variable show that probability value (sig) < level of significance (0.05) are valid. The coefficient of Cronbach Alpha is > .60 so all question items in the questionnaire of Financial Knowledge, Financial Attitude, Financial Behavior, and Personal Financial Management variable are reliable. It can be concluded that this questionnaire is an accurate and trustworthy tool for collecting and measuring data.

Classic assumption test results

The next step was to do a classic assumption test before the data are processed by using multiple linear regression. Some requirements must be met so that the regression model was declared fit, then the model can be used to predict. The results of the classic assumption test are presented in Table 3.

Table 3. Classic assumption test results

No.	Classical Assumption Test	Remark
1.	Normality data test	Data is normally distributed
2.	Heteroscedasticity test	No Heteroscedasticity
3.	Multicollinearity test	No Multicollinearity

Based on the classic assumption test results shown in Table 3, it can be known that the data are normally distributed, with no heteroscedasticity, and no multicollinearity. It can be concluded that these research data are qualified for multiple linear regression model-based analysis.

The results of multiple linear regression analysis

Table 4. The results of multiple linear regression analysis

Model	Unstandardized Coefficients		Sig.
	B	Std Error	
Constant	4.756	5.350	.379
PtKcu	.014	.350	.969
Skeu	.447	.157	.007
PrKeu	.506	.123	.000

The effects of financial knowledge on personal financial management

The results in table 4 above indicate that the significance value from the result of the first hypothesis is 0.969. When compared to the expected significance level (5%), the number is higher since the expected significance level is $0.969 > 0.05$. Consequently, it can be concluded that financial knowledge produces positive and insignificant effects on personal financial management which makes the first hypothesis invalid. This means the level of financial knowledge of the government employees in Kalibawang Community Health Center produces no effects on their personal financial management. The results of this research are different from the researches by Mien and Thao (2015), Amanah *et al.* (2016), Maulita and Mersa (2017) who argued that financial knowledge had significant positive effects on personal financial management.

The effects of financial attitude on personal financial management

The results in table 4 above indicate that the significance value from the result of the second hypothesis is 0.007. When compared to the expected significance level (5%), the number is lower since the expected significance level is $0.007 < 0.05$. Consequently, it can be concluded that financial attitude produces positive and significant effects on personal financial management which makes the second hypothesis valid. This means the level of financial attitude of the government employees in Kalibawang Community Health Center affects personal financial management. Performing personal financial management requires financial planning (short- and long-term financial planning). Better financial planning drives people to be more thoughtful in managing his personal finance e.g., better control over his expenses. Therefore, it ultimately can improve the quality of his life. The results of this research are in line with researches by Wiharno (2015), Mien and Thao (2015), Amanah *et al.* (2016) who argued that financial attitude had significant positive effects on personal financial management.

The effects of financial behavior on personal financial management

The results in table 4 above indicate that the significance value from the result of the partial test on the third hypothesis is at 0.000. When compared to the expected significance level (5%), the number is lower since the expected significance level is $0.000 < 0.05$. Consequently, financial behavior produces positive and significant effects on personal financial management which makes the third hypothesis valid. This means the level of financial behavior determines the ability in the management of personal finance, encouraging people to perform financial management more thoughtfully. The results of this research are in line with the research by Wiharno (2015) who argued that financial behavior had significant positive effects on personal financial management.

CONCLUSIONS

Based on the findings and discussion, it can be concluded as follows:

Financial knowledge has negative and insignificant effects on the personal financial management of the government employees in Kalibawang Community Health Center. It can be concluded that the financial knowledge of government employees does not influence their personal financial management.

Financial attitude has positive and significant effects on the personal financial management of the government employees in Kalibawang Community Health Center. It can be concluded that the financial attitude of government employees does influence their personal financial management.

Financial behavior has positive and significant effects on the personal financial management of the government employees in Kalibawang Community Health Center. It can be concluded that the financial behavior of government employees does influence their personal financial management.

The first suggestion is for the government employees in Kalibawang Community Health Center. For future improvement in terms of personal financial management, they need to develop their financial attitude (e.g., buying goods effectively) and improve their financial behavior (e.g., saving money for unexpected needs).

The second one is for further researchers interested in a similar topic. There are still many other variables, such as investment decision and demographic variables, which can be included for deeper study. In addition, the scope of this research is still opened to development.

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