



## Analysis of financial knowledge and financial attitude on locus of control and financial management behavior

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**Abstract** : This study aims to examine the direct and indirect influence of financial knowledge and financial attitude on locus of control and financial management behavior. The subject of this study used the students of Faculty of Economics and Business at Kanjuruhan University Malang in academic year of 2014 and 2015 as the sample determined by proportional random sampling. Data analysis technique is done by using path analysis. The results showed that financial knowledge has no influence on the locus of control or the financial management behavior. While the financial attitude has a significant effect on the locus of control and financial management behavior. This study also found a significant influence between locus of control with financial management behavior of students of Faculty of Economics and Business at Kanjuruhan University Malang

## Introduction

The basic understanding of financial management in principle is the activity of managing money made by individuals or communities in their daily lives to achieve prosperity. To achieve the expected welfare, a person needs to have expertise in managing his finances so that the money can be used to meet his needs responsibly. Through good financial management, a person will also avoid financial distress. To avoid financial distress, it requires financial intelligence which is a person's intelligence in managing his personal finances. With this intelligence, someone will be able to filter the information needed for financial management in order to provide benefits to improve their welfare.

The purpose of personal financial management or money management or often referred to as consumer financing, is to manage finances for prosperity, in which to discuss individual finance issues, such as how to draw up cash budget and cash out budget, credit budget, insurance and also investation. From the side of affective attitude, more refers to how a person perceives his personal financial problems. In this behavior variable more leads to how a person behaves related to personal finance. In terms of cognitive knowledge will lead to what individuals know about personal finance issues, how perceptions of the level of individual knowledge about various personal finance concepts (Marsh 2006). Learning how to manage money (financial management) is a necessary skill (Danes 1987). Financial education therefore often discusses personal issues related to personal finance.

Healthy financial behavior is shown by good planning, management and financial control activities. Good financial behavior indicators can be seen from the way / attitude of a person in

managing the outflow of money, credit management, savings and investment (Hilgert 2003). The wisdom of personal financial management is closely related to the ability and knowledge of a person to the financial concepts known as financial literacy.

Financial literacy is defined as the intelligence or ability of a person in managing his finances. Financial literacy is a must for every individual to avoid financial problems. Because individuals are often faced with a trade-off situation where one has to sacrifice one's interests for the sake of another. The issue of trade off occurs because a person is limited by his financial ability (income) to obtain all the desired goods. Financial literacy affects almost all aspects related to planning and spending money such as income, credit card use, savings, investment, financial management and financial decision making.

To handle personal finance systematically and successfully it takes knowledge. Financial knowledge has a close relationship with financial literacy or financial education. Hilgert (2003), states that financial knowledge is the conceptual definition of financial literacy. Financial literacy describes a program of financial education by studying certain skills so that individuals have the ability to control their financial future. The financial literacy component, is defined as the ability to make simple decisions about debt contracts, especially how to apply basic knowledge of interest that is measured in the context of everyday financial choices(Lusardi 2009).

Financial literacy has a significant effect on financial behavior (Danes 2007 ); (Laily 2013); (Susanti 2013). The results of Chen (1998) showed that students with low literacy rates prefer more false financial decisions than students with higher levels of financial literacy. Other research findings Robb (2011 ) indicate that subjective financial knowledge as well as objectively affect the financial behavior significantly. Kholilah (2013) reinforces that financial knowledge is a major predictor in shaping financial behavior.

Behavioral finance began to be known and developed in the world of business and academic in the 1990s. The development of behavior finance is pioneered by the existence of one's behavior in the decision making process (Ida 2010). Financial behavior must lead to responsible financial behavior so that all finances both individuals and families can be managed properly. The socially consumptive behavior of Indonesian society, often resulting in irresponsible financial behavior, such as lack of savings, investments, emergency fund planning and budgeting for the future. So that financial education needs to be done to every individual, including to students.

Students are individuals who are at a crucial time to prepare them for financial independence and start making responsible decisions (Elliehausen 2007). Hayhoe, et.al (1999) in Herdjiono (2016) stated that there is a relationship between financial attitudes and the level of financial problems. Thus, it can be said that a person's financial attitude also affects the way a person regulates his financial behavior. Lim (1997) and Madern (2012) stated that a number of financial attitudes are also related to financial difficulties often faced by young people.

Locus of control is needed which is a person's perspective on an event, whether the event can be affected by the action concerned or not. Rotter (1966) suggested that in its orientation the locus of control is divided into two that is the internal locus of control and the external locus of control. A person with an internal locus of control has more confidence in himself and believes that everything that happens depends on himself. Whereas on the contrary, in someone who has an external locus of control, he will believe that all events depend on destiny and the environment. This description means that individuals with internal locus of control are more likely to perform difficult and risky tasks (the result is uncertain) than individuals with external locus of control.

Empirical evidence suggests that the locus of control affects financial behavior (Hira 1999). There is a positive relationship between locus of control and credit card accumulation (Davies 1995). The magnitude of one's willingness to save and control spending is partially influenced by self-control perceptions (Perry 2005). Investors with internal locus of control are more willing to take

risks because they have a better belief (Ahmed 1985).

## Method

This research type is eksplanatory research by using quantitative approach which aims to know the level of influence, correlation closeness or association between variables by doing the measurement. The thinking flow is done deductively, the researcher determines the variable then collects the data and concludes it. The data were collected by using questionnaires distributed to students of Faculty of Economics and Business class of 2014 and 2015.

The sampling technique was conducted by using proportional random sampling; of the total population of 766 people consisting of 428 students majoring in Management, 234 students majoring in Accounting and 104 students majoring in Economic Education. By using the Slovin formula, obtained the number of samples as much as 88.45 people or rounded up to 90 students; consisting of 50 students majoring in Management, 28 students majoring in Accounting and 12 students majoring in Economic Education.

Based on the theoretical basis that has been disclosed above, then this research using 4 (four) variables which measured by using likert scale. Acting as exogenous variable (X) is Financial Knowledge (X1), and Financial Attitude (X2), while those acting as endogenous variable (Y) are Locus of Control (Y1) and Financial Management Behavior (Y2). Data collection techniques were conducted by using questionnaires distributed to the sample students by randomly assigning up to the specified amount. While the technique of data analysis using path analysis

## Result and Discussion

### Descriptive analysis

This analysis aims to describe the responses of respondents on the questionnaires that have been distributed. Description of the answer is accumulated for each indicator of research variables, which includes Financial Knowledge, Financial Attitude, Locus of Control and Financial Management Behavior. Respondents' responses to item statements in Financial Knowledge show a good average response, in the sense that respondents have a sufficient level of financial knowledge. Respondents' responses to items of statements in the Financial Attitude are pretty good, in the sense that respondents respond to their attitudes toward the management and personal financial control quite well.

Respondents' responses to item statements in Locus of Control mean a good response. This means that the responder has self-control over events that occur around him, especially the control of respondents to the financial management they experienced. Response of respondents to items statement in the Financial Management Behavior average is pretty good. This means that the behavior of respondents in managing their personal finances in a responsible manner that can not be said good.

### Validity and reliability tests

The criteria for decision making in determining the validity of the statement item is to look at the corrected item correlation, and the item is said to be valid if the coefficient exceeds or equal to 0.30 (Anshori 2009). From these criteria, there are some items in the invalid statement, so that the statement item is not included in the next stage of testing. Test reliability in this study using Cronbach Alpha technique. The research instrument is said to be reliable if its reliability coefficient is more than 0.6 (Syofian 2014). Of these criteria, all the instruments studied in this study have a value of reliability coefficient of more than 0.6, so that research variables can be relied upon.

Classical assumption test

*Normality test*

The assumption of normality in this study is using Kolmogorov Smirnov by looking at the value of Z or its significance value and can be seen that Sig > 0.05 then the data presented normal distribution. Normality test results appear in the following table:

Table 1. Normality Test

	Kolmogorov Smirnov			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Unstandardized residual	0,083	90	0,170	0,975	90	0,077

*Multicollinearity test*

This test is done to know that there is no relationship between exogenous variables.

Table 2, Multicollinearity Test

Exogen Variable	Tolerance Value	VIF	Note
Financial Knowledge	0,985	1,015	<i>There is no multicollinearity</i>
Financial Attitude	0,985	1,015	<i>There is no multicollinearity</i>

From table 2, it can be known the VIF value is less than 10, so that between exogenous variable does not occur relationship. As suggested by Sanusi (2003), the detection of multicollinearity can be done by looking at its variance value, if the VIF value > 10 then there is a high multicollinearity symptom. So if the VIF value is generated below 10, then a regression model is free of multicollinearity.

*Heteroscedasticity test*

This test can be done through the Scatterplot Chart which shows the variable indicator points. If the points spread and do not form a particular pattern, then the indication does not occur heterogeneous. From the scatterplot image below, it shows the spreading points and does not form a specific pattern, so the indication does not occur heterogeneous.

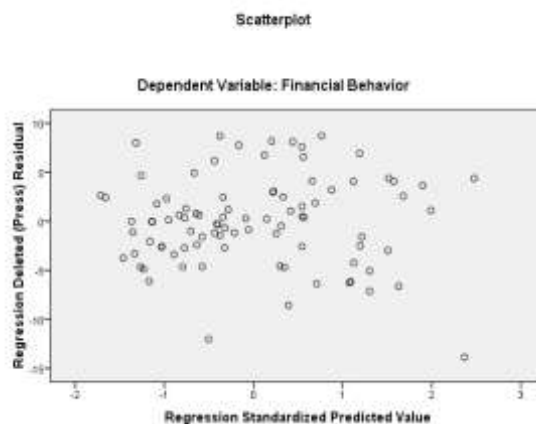


Figure 1. Heteroskedastisity Test

Path Analysis

Table 3. Path Analysis Summary

Exogenous Variable	Endogenous Variable	Path Coefficient of Direct Effect			P			
		Beta	Sign	r <sup>2</sup>	Intervening Variable	R	Ind	Total Effect
Constanta		16.391						
Financial Knowledge	Locus of Ctrl	0.113	0.184	0.035				
Financial Attitude	Locus of Ctrl	0.603	0.000	0.381				
Constanta		5.115						
Financial Knowledge	Financial Management Behavior	0.094	0.162	0.052	Locus of Ctrl	0.187	0.134	0.278
Financial Attitude	Financial Management Behavior	0.420	0.000	0.491	Locus of Ctrl	0.617	0.441	1.125
Locus of Ctrl	Financial Management Behavior	0.437	0.000	0.510				0.714

Notes:

r<sup>2</sup> = The closeness of partial influence between exogenous variables on endogenous variables

R = Correlation between exogenous variables to endogenous variables

Ind = Indirect Influence; Multiplication between R and β<sub>Y1Y2</sub>

Path analysis in equation model:

$$Y1 = 16.391 + 0.113 X1 + 0.603 X2 + \varepsilon_1$$

$$Y2 = 5.115 + 0.094 X1 + 0.420 X2 + 0.437 Y1 + \varepsilon_2$$

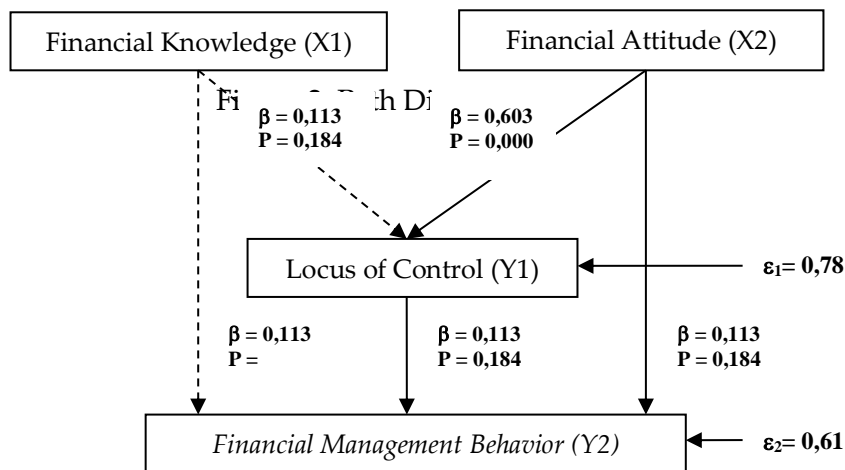


Figure 1. Heteroskedastisity Test

In the first hypothesis testing, as summarized in table 3 above proves that Financial Knowledge or student financial knowledge has no effect on Locus of control. This indicates that a high level of financial knowledge is not guaranteed to provide support to student self-control in taking an attitude or decision. This means that students have not been able to control himself well, despite having adequate financial knowledge. This is understandable because students still have a

high ego and are still looking for the true identity. Locus of control is more psychological, which concerns the way an individual views of a thing or events that surround it.

However, in Financial Attitude testing of Locus of control showed a significant relationship. This means that the better the individual attitude of students about finance will provide support to student self-control in taking an attitude or decision. Financial Attitude is more directed to the way of thinking, opinion and judgment of students on financial practices, especially on the statements in the questionnaire. The better the way students' thoughts, opinions and judgments on their financial practices will provide support for student self-control in taking an attitude or decision.

The results of this study differ from the results of research Sanusi (2003) who found a significant influence between Financial Knowledge with Locus of Control. Also differs from research by Ariani (2015) who found that a person with sufficient level of knowledge would be able to control himself well. That financial decision making (investment) will be based on a good level of financial knowledge and good self-control as well.

The second hypothesis testing, it show no significant influence between Financial Knowledge to Financial Management Behavior. The level of individual financial knowledge has not been able to support its Financial Management Behavior. This result is in accordance with the results of research (Kholilah 2013), which found no influence between Financial Knowledge to Financial Management Behavior. In contrast to the results of Ida (2010) which found a significant influence between Financial Knowledge with Financial Management Behavior.

To be able to support Financial Management Behavior, an individual needs to have sufficient financial information to be able to make the best decision in order to improve his welfare. Therefore the individual can not only rely on his income in making decisions, but also need to consider other matters, which may affect his decision, including knowledge of the benefits and risks of the decisions to be taken.

However, Financial Attitude has a significant influence on Financial Management Behavior. This result is in accordance with Ariani (2015) which argues that the financial attitude is a state of mind, opinion, and assessment of a person to his personal finances, which then applied to the attitude. A person's thoughts, opinions and judgments about his personal financial circumstances will determine what kind of actions they will take. For example, savings, if someone has thoughts, judgments, and the opinion that saving is not important. Then the person will not save. If these thoughts, opinions, and judgments (attitudes) continue, it will become a habit / behavior (behavior) that will be very difficult to change.

In testing the third hypothesis, it obtained evidence of a significant influence between Locus of Control on Financial Management Behavior. The results of this study in accordance with research (Kholilah 2013). Individuals who have good Self-Control will show a Better Financial Management Behavior as well. Vice versa. For example, an individual who has a good level of Self-Control will make a well-thought-out budgetary plan before his or her financial activities are run. Financial Management Behavior places more emphasis on one's ability to manage its finances, from planning, budgeting, checking, managing, controlling, searching and storing financial funds daily. So if it is linked to the indicators used in this study, then individuals with good Locus of Control will be responsible for their financial management, including how to manage savings, investments and credit payments.

In testing the fourth hypothesis, it shows an indirect relationship between Financial Knowledge to Financial Management Behavior through Locus of Control, with estimation errors of 0.78 or 78%. This means the number of variance that can not be explained by an indirect relationship of Financial Knowledge to the Financial Management Behavior through Locus of Control is 78%, or the model's ability to explain the indirect relationship between Financial Knowledge to Financial Management Behavior through Locus of Control is only 22%. In the Fifth hypothesis testing shows

an indirect relationship Between Financial Attitude to Financial Management Behavior through Locus of Control, with an estimated error of 0.61 or 61%. This means that the amount of variance that can not be explained by the indirect relationship between Financial Attitude to Financial Management Behavior through Locus of Control is 61%, or the model's ability to explain the indirect relationship between Financial Attitude to Financial Management Behavior through Locus of Control is 39%

### Conclusion

Financial knowledge has no significant effect on Locus of Control and Financial Management Behavior, but Financial Attitude has a significant effect on Locus of Control and Financial Management Behavior. In the next test results obtained that Locus of Control significant effect on Financial Management Behavior. The result of research also indicate indirect influence between Financial Knowledge to Financial Management Behavior through Locus of Control also there is indirect influence between Financial Attitude to Financial Management Behavior through Locus of Control. Yet, there are many shortcomings in this research such as: (1) the number of samples (2) the possibility of a statement in a multi-commentary questionnaire, causing the respondent to be confused in responding, (3) the low indirect influence between Financial Knowledge on Financial Management Behavior through Locus of Control, possibly due to Lack of theory that can explain the relationship, so there are many other variance that can influence it. It is hoped that subsequent researchers can sharpen research indicators or add other more relevant variables.

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