

The Effect of Financial Literacy and Financial Experience on SME Financial Behavior in Indonesia

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Abstract

The aim of this study is to examine the effect of financial literacy and financial experience on SMEs financial behavior in Indonesia. The dependent variable is financial behavior while independent variables are financial literacy and financial experience. There are four control variables used, namely company size, business length, age and education level of SME owner. The respondent sample is 42 owners of SMEs in Purwokerto Selatan. This study used multiple regression analysis. The results showed that financial literacy has no effect on financial behavior. Financial experience has a positive effect on financial behavior. While among four control variables, only company size has a significant negative effect on financial behavior. Three control variables have no significant effect on financial behavior. The implication of this study, SME owners have good financial experience will increase financial behavior. Therefore, it is very important to improve the financial experience of SME owners.

Pengaruh Literasi Keuangan dan Pengalaman Keuangan terhadap Perilaku Keuangan Ukm di Indonesia

Abstrak

Penelitian ini bertujuan untuk menguji pengaruh literasi keuangan dan pengalaman keuangan terhadap perilaku keuangan UKM di Indonesia. Variabel dependen adalah perilaku keuangan sedangkan variabel independennya literasi keuangan dan pengalaman keuangan. Ada empat variabel kontrol yaitu ukuran perusahaan, umur perusahaan, umur pemilik dan tingkat pendidikan pemilik. Responden terdiri dari 42 pemilik UKM di kecamatan Purwokerto Selatan. Penelitian ini menggunakan metode regresi linier berganda. Hasil penelitian menunjukkan literasi keuangan tidak mempunyai pengaruh yang signifikan terhadap perilaku keuangan. Pengalaman keuangan mempunyai pengaruh yang positif signifikan terhadap perilaku keuangan. Sedangkan dari empat variabel kontrol, hanya ukuran perusahaan yang mempunyai pengaruh negatif signifikan. Tiga variabel kontrol yang lain tidak mempunyai pengaruh yang signifikan. Implikasi penelitian ini, pemilik UKM yang memiliki pengalaman keuangan yang baik meningkatkan perilaku keuangan. Oleh karena itu, sangat penting untuk meningkatkan pengalaman keuangan yang dimiliki oleh pemilik UKM.

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INTRODUCTION

Financial behavioral research is currently developing and encouraging researchers to conduct further research on this subject. This theory derives from the prospect theory (Kahneman & Tversky, 1979). Prospect theory is a critique of expected utility theory as a descriptive model of decision making under risk. This theory was developed with new experiment confirm distinctive fourfold pattern risk attitude; risk aversion for gains and risk-seeking for losses of high probability; risk seeking for gains and risk aversion for losses of low probability (Tversky & Kahneman, 1992).

Financial behavior is a paradigm in which financial market is studied by using a different model. The financial behavior has two perspectives: cognitive psychology and the limits of arbitrage. Cognitive refers to how people. Financial management behavior of an individual is associated with their financial knowledge (Saldalia et al., 2017)

Three main studied factors have an effect on the financial behavior, which are information, demography and cognitive bias (Srivastava & Banwet, 2016). Accessibility, content, quality and reliability of information about the company is an important criterion which affects investor decision. Sources of information are corporate disclosure and media or institutional releases. Demographic dimensions widely used in research are socioeconomic factors (age, welfare, financial literacy, family size, investor's social status, investor environment, company location, industry affiliation, economic size, experience, participation and training), socio-cultural factors (gender, culture, social norms, religion and beliefs) and biological factors (IQ, demographic changes). Cognitive bias is important research mediator and moderator for investor decision making. Six categories cognitive bias are decision making biases, belief biases, heuristics, memory errors, sentiments and others (Nigam et al., 2016)

Financial literacy is the ability to make informed judgment and to take effective ac-

tions regarding the current and future use and management of money. It includes the ability to understand financial choices, plan the future, spend wisely, and manage challenges associated with life events such as a job loss, saving for the retirement, or paying child's education (Cohen & Nelson, 2011; Hidajat, 2018).

The research results on the effect of financial literacy or financial knowledge toward financial behavior are considered inconsistent. The research on the relationship between the financial trends behavior and private pension funds in Turkey found evidence that perceptions and attitudes toward risk, emotional intelligence, both basic and advanced financial knowledge affect the individual pension funds preferences (Dogan, 2016).

Financial literacy has an effect on financial behavior (Strömbäck et al., 2017; Kumar et al., 2017). Financial knowledge has a significant effect on financial behavior (Asaad, 2015; Pritazahara & Sriwidodo, 2015; Arifin, 2017). While other research found evidence that financial knowledge has no significant effect on financial behavior (Herdjiono et al., 2016; Susdiani, 2017).

Financial experience is people experiences with traditional borrowing, alternative borrowing and investing activities. Lusardi and Tufano (2015) purpose set of financial experiences in individual engages: opening a checking account, buying bonds and stocks and borrowing from traditional and alternative credit providers.

Researches on the effects of financial experience toward financial behavior are still rare, but they show inconsistent results. Previous researches indicate that financial experience has a significant impact on financial behavior (Pritazahara & Sriwidodo, 2015; Purwidiанти & Mudjiyanti, 2016). While research of Susdiani (2017) found evidence financial experience has no significant effect on financial behavior.

This study also examines the effect of variable controls; these are company size, length of business, age and level of education of SME owners to their financial behavior. The company

size and the business length can reflect the characteristics of the business, therefore, it is predicted can affect the SME owners behaviour. Research of Strömbäck et al. (2017), stated the age and level of education have an influence on financial behavior. Age has a negative effect on financial behavior. While the level of education has a positive effect on financial behavior.

To fill the research gap, this study aims to re-examine the effects of financial literacy and financial experience on financial behavior. This study uses four control variables, namely the company size seen from the number of SMEs employees, the business length, the owner age and their education level. The difference of this study with previous research by adding a control variable of business length, which has not been studied in previous research regarding the financial behavior of SMEs.

The purpose of the current study was first to analyze the effect financial literacy on financial behavior. Second, to analyze effect financial experience on financial behavior.

Hypothesis Development

Relationship between Financial Literacy and Financial Behavior

Financial literacy means people's ability to process economic information and make an informed decision about financial planning, wealth accumulation, debt and pensions (Lusardi & Mitchell, 2014). The level of financial literacy owned by each person is different. The difference of those financial literacy level that causes a significant difference between individuals with the other in collecting both short and long term assets.

Financial literacy explains a wide of these saving as well as some borrowing decision (Grohmann, 2018). Financially literate individuals make better use of advanced financial product. The higher financial literacy leads to improve financial decision making.

Research about the impact of financial literacy training on financial behavior, identify enhanced financial literacy as one of the important factors explaining the behavioural change

(Sayinzoga et al., 2016). There is a significant relationship between financial literacy and financial behavior (Chaulagain, 2017). Thus, the following hypothesis is proposed:

H1: Financial literacy affects financial behavior

Relationship between Financial Experience and Financial Behavior

Financial experience is the ability to make investment consideration or decision to determine investment planning and management in assuring the usefulness of present and future financial management (Yulianti & Silvy, 2013). Financial experience can be used as a learning process for individuals in managing the financial issue and decision making in the future. Some previous research found the financial experience has a significant impact on financial behavior (Pritazahara & Sriwidodo, 2015; Purwidiyanti & Mudjiyanti, 2016). Hence, the hypothesis is:

H2: Financial experience affects financial behavior

METHOD

This research is conducted in SME at Kecamatan Purwokerto Selatan, which it has the largest number of SMEs. The research sample is 42 owners or manager of SMEs. Source of research data comes from the results of a structured questionnaire. This study used multiple regression analysis. The dependent variable in this research is financial behavior, while independent variables are financial literacy and financial experience. In addition, there are four control variables, namely company size seen from the number of SME employee, length of business, owner's age and owner's education level.

Indicators of financial literacy in this study are based on the previous research (Aribawa, 2016; Rahayu & Musdholifah, 2017). The indicators are account ownership on behalf of the company, company identification at account opening, minimum deposit at the time of account opening, savings deposit, saving yield in one year, multi-year savings, loan profit sharing, inflation to the value of money, time value of

money, inflation on the company growth. Financial literacy used Guttman measurement scale; when correct answer given score 1 and wrong answer given score 0.

The indicators used for financial experience are the respondent's experience in banking investment, capital markets, pawn products, insurance products, pension funds products and other financial institution products. The scale used to measure financial experience is likert scale with never (score 1) and always (score 5).

Company size variable is calculated from the number of owned employees. The variable of the company's length time is calculated from the beginning of the company established to the year of research. The owner's age variable is calculated from the owner's age to the year of study. The educational level of the owner is rated 1 for high school graduates; 2 for diploma graduates and 3 for the undergraduate degree.

RESULT AND DISCUSSION

The respondent's number of SMEs owner used in this study is 42 people. The descriptive statistic showed 71.4% of male respondent and 28.6% female respondent. The average number of employees owned of 10 employees, the average length of business is 13 years. In terms of respondents age average on 39 years. Based on the average level of education, all respondents have a diploma education.

This research tested the validity and reliability test for question used to measure financial experience and financial behavior. Validity testing showed a valid result because significance Pearson Correlation test is below 0,05. Reliability testing also showed reliable result because the Cronbach Alpha value is greater than r table value.

This study tested the classical assumptions for the regression model. The classical assumptions test used normality test, multicollinearity test and heteroscedasticity test. The regression model in this study has passed the normality test, multicollinearity test and heteroscedasticity test.

From 42 pieces of research data, three pieces of data can not be further analyzed because of the outlier test. R square test results showed the number of 32% and F test results of 2.504 significant at the level of 5%. Regression test analysis results of this study presented in Table 1.

Regression test analysis results showed that financial literacy has no significant effect on financial behavior. The results of this test did not support the first hypothesis that financial literacy affects financial behavior. Financial experience has a significant positive effect on financial behavior at the 5% of the significance level. This result supported the second hypothesis that financial experience has a significant effect on financial behavior. The test results for control variables only find evidence of compa-

Table 1. Regression Analysis

Model		Coefficients ^a				
		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.124	0.622		5.021	0.000
	Literacy	-0.038	0.044	-0.138	-0.866	0.393
	Experience	0.445	0.160	0.479	2.779	0.009
	Size	-0.022	0.009	-0.451	-2.519	0.017
	Length of Business	0.027	0.018	0.312	1.530	0.136
	Age	0.008	0.010	0.150	0.777	0.443
	Education	-0.177	0.119	-0.243	-1.488	0.146

a. Dependent Variable: Financial Behavior

ny size that has a significant negative effect on financial behavior. Variable length of business, age and education level of SME owners have no significant effect.

This study found evidence that financial literacy has no effect on financial behavior. These results support the previous research (Herdjiono & Damanik, 2016; Susdiani, 2017). On the other hand, these results are not in line with some previous research that found evidence of financial literacy affecting financial behavior (Asaad, 2015; Arifin, 2017; Kumar et al., 2017; Strömbäck et al., 2017). This study showed financial literacy can not determine the financial behavior of SME owners. Someone who has high financial literacy does not necessarily have good financial behavior. Financial education is less effective for low income client as well as in low and lower-middle income economies (Kaiser & Menkhoff, 2017).

This research is able to prove that financial experience has a significant positive impact on financial behavior. SME owners who have good financial experience will have an effect on the increasing of financial behavior. The results of this study support the previous research (Pritazahara & Sriwidodo, 2015; Purwidiyanti & Mudjiyanti, 2016; Susdiani, 2017). Financial experience is used as individual learning in managing finance and making future financial decision (Pritazahara & Sriwidodo, 2015).

Only variable control of company size that has a significant effect on financial behavior. The larger the size of the company the lower financial behavior of SME owners. While other control variables of business length, age and education level of SME owners have no significant effect on it.

CONCLUSION AND RECOMMENDATION

The results of this study can be summarized as follows: first, financial literacy has no effect on financial behavior and second financial experience has an effect on financial behavior. Variable control of company size has an effect on financial behavior.

The Implication of this study, SME owners have good financial experience will influence financial behavior. Therefore it is very important to improve the financial experience of SME owners. This can be done by providing opportunities for SME owners to invest in other investment alternatives such as investment in the capital market.

This research still uses a small number of samples. Future research can increase the number of SMEs studied. The study only examined SME in one area. Further research can expand the research area in one district or one province. Thus, the level of generalization of research will be even greater. Further research is suggested to add other variables such as risk tolerance and religiosity that may affect financial behavior.

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