CHAPTER II

THEORETICAL FOUNDATION

2.1 Personal Financial Management Behavior

2.1.1 Definition of Personal Financial Management Behavior

Personal financial management behavior is a person's ability to manage their finances, such as planning, budgeting, checking, managing, and controlling daily financial funds (Kholilah & Iramani, 2013). According to Wicaksono (2015), personal financial management behavior studies how an individual actually behave in a financial decision, especially studying how psychology affects financial decisions. The concepts described above, stated that personal financial management behavior is an approach that explains how an individual invest or relate to finances influenced by psychological factors.

Personal financial management behavior is built on various assumptions and ideas from economic behavior. The involvement of emotions, traits, preferences, and various kinds of things inherent in an individual as intellectual and social beings will interact underlies the emergence of decisions to take an action. When an individuals take an action, they must develop, evaluate, and choose among a series of options, of which the final decision is based on a level of risk and uncertainty (Baker et al., 2017). Chinen & Endo (2012) stated that an individuals who have the ability to make the right decisions about finances will not have financial problems in the future and show good financial management behavior and they are able to determine the priority needs. Good personal financial management behavior is indicated by good financial planning, management and control activities. Good personal financial management behavior is described by having effective behavior such as preparing financial records, documentation on cash flow, cost planning, paying electricity bills, controlling credit card use, and planning savings (Zaimah, et al., 2013).

Personal financial management behavior relates to someone's financial responsibilities on how they manage their finances. Which financial responsibility is a process of managing money and assets in a productive manner. Money management is also the process of controlling and using financial assets. There are several elements involved in effective money management, such as setting a budget and valuing purchases based on need. The main activity in money management is the budgeting process. The budgeting process aims to ensure that individuals are able to manage financial obligations in a timely manner by using the income received in the same period (Ida & Dwinta, 2010).

Nababan & Sadalia (2013) also stated that personal financial management behavior explains how an individual treats, manages, and uses their financial resources. Because an individual who has responsibility for financial behavior will use money effectively by budgeting, saving money and controlling expenses, making investments and paying debts on time. In carrying out personal financial management, there must be financial planning to achieve goals, both short-term and long-term goals. The media for achieving these goals can be through investment, savings, or allocating funds. With good personal financial management behavior, someone will not be trapped in unlimited desire behavior (Suryanto, 2017).

According to Suryanto (2017), each individual has different characteristics and tendencies of financial behavior as a result of the factors that influence the individual both internally and externally. Psychological influences such as personality and character are the strongest factors that can influence a person's financial management behavior. In addition, there are many factors that can affect someone's personal financial management behavior, including financial knowledge, financial attitudes and locus of control.

2.1.2 Personal Financial Management Behavior Indicators

Based on the study which was conducted by Dew & Xiao (2013) and Mien & Thao (2015), the indicators that used to determine the personal financial management behavior include:

i. Credit Management

Credit Management is an expenditure on various goods and services. A person's financial behavior can be seen from how they carry out their credit management activities such as what they buy and why they buy it (Ida & Dwinta, 2010).

ii. Cash Management

Cash flow is the main indicator of good financial, which is a measure of a person's ability to pay all of his expenses. Because good cash flow management is a delicate balance between cash intake and expenditure. Cash flow management can be measured by whether someone pays their bills on time, pay attention to records or evidence and make a financial budget and plan for the future (Hogarth & Hilgert, 2002).

iii. Saving and Investment

Savings can be defined as the portion of income that is not consumed in a certain period. Because no one knows what will happen in the future, so money must be saved in anticipation of unexpected events. Investment is allocating or investing current resources with the aim of getting benefits in the future (Herdjiono & Damanik, 2016).

2.2 Financial Knowledge

2.2.1 Definition of Financial Knowledge

Financial knowledge is knowledge that refers to what individuals know about personal financial matters, as measured by their level of knowledge about various personal finance concepts (Marsh, 2006). Financial knowledge is a person's understanding of various things about the financial world (Kholilah & Iramani, 2013). Mason & Wilson (2000) stated that financial knowledge is a person's ability to obtain, understand and evaluate relevant information to make decisions by understanding the consequences that arise. The better a person's knowledge of finance, the better their management in decision making.

In general, a person's lack of financial knowledge is caused by education. Assuming that education can increase financial knowledge which will result in more effective financial decision making (Robb & Woodyard, 2011). Financial

knowledge can be obtained from formal education and informal sources. This formal education is like high school programs or lectures, seminars, and training classes outside of school. Meanwhile, informal sources can be obtained from the surrounding environment, such as from parents, friends, and someone's own experience. Ida & Dwinta (2010) suggested that to have financial knowledge, it is necessary to develop financial skills and learn to use financial tools. Financial skills as a technique for making decisions in personal financial management. Preparing a budget, choosing investments, choosing an insurance plan, and using credit are examples of financial skills. While financial tools are tools or facilities used in making personal financial management decisions, such as checks, credit cards, and debit cards.

According to Hogarth & Hilgert (2002), someone with financial knowledge is more likely to engage in financially responsible behavior. The results of this study are supported by the theory of financial behavior that uses cognitive processes in management and problem solving and decision making. It means that the more skilled a person's knowledge in understanding finance will be, the better management will be in making decisions. Based on this description, individuals who have better financial knowledge will have more targeted financial behavior.

2.2.2 Financial Knowledge Indicators

Based on the study that was conducted by Chen & Volpe (1998), there are several indicators that are related to financial knowledge, which are as follows:

i. General Knowledge of Personal Finance

   General knowledge of personal finance includes understanding some of the most basic things such as how a person manages the money they have and the ability to analyze their personal income sources. This general knowledge of personal finance is also related to how individual prioritizes the use of money, planning and budgeting.

ii. Saving and Borrowing

   Savings is the part of people's income that is not used for consumption. People who have an income greater than their consumption needs will

have the opportunity to save. And there are also situations when a person's finances are insufficient, forcing them to rely on credit or debt. Because of the standard of living and all the expenses, such as housing, transportation, and education costs, cannot be covered by income, then using credit or debt can be a consideration to overcome it. With funding sources in the form of credit or debt, individuals can consume and purchasing product and services, and pay it in the future. However, under certain conditions, credit and debt can be profitable, for example credit or debt from banks can be used to build a house or property, because property prices can offset inflation, or loans for the purchase of production equipment and other forms of productive operating expenses. To use credit and debt sensibly, individuals must have sufficient understanding of variables that affect creditworthiness, considerations in making loans, consumer credit features, loan interest rates, loan terms, sources of debt or credit, and others.

iii. Insurance

Insurance is a contract in which an individual or entity receives financial protection or compensation from an insurance firm in the form of a policy. The firm evaluated the risks of its clients to make payments more reasonable to the insured. These insurance policies are designed to protect against the danger of large and small financial losses resulting from damage to the insured's property or liability for damage or injury to a third party.

iv. Investment

Investment is part of the savings used for economic activities to produce goods and services with the aim of making a profit. But investments also tend to be risky. This risk can be defined as uncertainty or the possibility of financial loss. Each individual's response is different to risk, depending on past experiences and psychological motivations. Most individuals tend to avoid situations that create feelings of insecurity or insufficiency. Therefore, it is important to be able to deal with risks in a logical and controlled way.

2.3 Financial Attitude

2.3.1 Definition of Financial Attitude

Pankow (2003) defined that financial attitude as a state of mind, opinion and judgment about finances. Financial Attitude owned by a person will help the individual in determining their attitudes and behavior in financial matters, both in terms of financial management, personal financial budgeting, or how the individual's decisions regarding the form of investment to be taken. Every individual who always applies a financial attitude in his life will make it easier for the individual to determine their attitude and behavior in financial matters.

Herdjiono & Damanik (2016) also stated that there is a relationship between financial attitude and the level of financial problems. Thus it can be said that a person's financial attitude also affects the way a person regulates their financial behavior.An awareness of financial attitude will assist someone in determining what they believe about their finances. According to Robbins & Judge (2008), attitude is an evaluative statement both pleasant and unpleasant towards objects, individuals and events. Attitude has three main components consisting of:

i. Cognitive

   Cognitive is an opinion or belief of an attitude that determines the level for something or a more important part of the attitude.

ii. Affective

   Affective is an emotional feeling that each person has. Feelings are also interpreted as a statement of attitude that is taken and determines the behavior that will be carried out by each individual.

iii. Behavior

   Behavior is a reflection of how the individual behaves in a certain way towards something or someone. Every individual who always applies a financial attitude in his life will make it easier for the individual to determine his attitude and behavior in financial matters, such as managing finances, preparing personal budgets and making the right investment decisions.

According to Furnham (1984), Financial Attitude can be reflected by the following six concepts below:

i. Obsession which refers to a person's mindset about money and their perception of the future to manage money well.
ii. Power which refers to someone who uses money as a tool to control others and thinks money can solve problems.
iii. Effort refers to someone who feels they deserve money from what they have done.
iv. Insufficient which refers to someone who always feels that they do not have enough money.
v. Retention which refers to someone who has no tendency to not want to spend money.
vi. Security which refers to someone's perspective of money, such as the assumption that money is better just kept for yourself without saving in a bank or for investment.

Financial Attitude plays an important role in determining a person's financial behavior. Someone who is rational and more confident in financial matters affects financial behavior. Robb & Woodyard (2011) suggested that financial attitude is subjective and has a significant impact on financial behavior. The findings of this study are supported by the theory of financial behavior perspective, which tends to incorporate the influence of emotions into the decision-making process in financial decision-making. The more positive someone’s financial mindset is, the better someone’s financial decision-making will be.

2.3.2 Financial Attitude Indicators

Based on research conducted by Rajna et al (2011) in the Mien & Thao (2015) journal, the indicators used to explain Financial Attitude are as follows:

i. Saving regularly.

Saving regularly is when an individuals do not spend all the money they have, and put some money in the bank or a building society. It is usually done by every week, every month, or every paycheck.

ii. Budgeting.

Budgeting refers to a spending plan based on individual's income and expenses. It is an estimate of how much money an individual will make and spend over a certain period of time, such as a month or year. Budgeting also involve a comprehensive list of expenditure on a few categories. Some individual prefer to write their budget out by hand, while others use a spreadsheet or budgeting app.

iii. Money Saving.

Money saving refers to the money left over after subtracting an individual's spending from their disposable income over a given time period. It also represents a net surplus of funds for an individual after all expenses and obligations have been paid.

iv. Financial Planning.

Financial planning is the estimation of an individual's current and future financial situation. Furthermore, it necessarily requires planning for the efficient use of financial resources in order to achieve an individual's short and long-term goals. It also involves an investment plan and expense management as well.

2.4 Locus of Control

2.4.1 Definition of Locus of Control

According to Amanah et al (2016), locus of control is an important point in convincing individuals about their abilities to control their own destiny. Locus of control is a behavioral pattern of individuals who can control themselves in their work to achieve success (Mien & Thao, 2015). Locus of control can be interpreted as a person's perception of the causes of success or failure in carrying out a job (Robbins & Judge, 2008).

The concept of Locus of Control is also defined by Ida & Dwinta (2010), as the cause of an event. This statement also appears in Rotter (1966) which stated that there are several factors that influence a person's learning, which is expectancy which means someone's expectation will arise in certain situations.

Gailliot et al (2007) also stated that *“self-control refers to one's ability to control or override one's thoughts, emotions, urges and behavior”.* This self-control refers to someone's ability to control someone's thoughts, emotions, urges and behavior. And according to Ghufron & Risnawati (2010), locus of control is defined as an individual skill in sensitivity to reading the situation itself and the environment. In addition, locus of control is the ability to control and manage these behavioral factors according to situations and conditions to present themselves and conduct socialization, the ability to control behavior, the tendency to attract attention, please others, always be adjusted to others and cover their feelings. Locus of control is able to regulate and direct behavior towards goodness by involving physical and psychological functions so that it can have a positive impact.

Locus of control is also divided into two, which is the internal locus of control and external locus of control. Internal locus of control tends to assume that ability and effort determine what is gained in life. Meanwhile, external locus of control tends to assume that life is determined by environmental forces (Kholilah & Iramani, 2013). Individuals who have the belief that the environment will have control over the fate or events that occur in their lives are said to have external locus of control. Thus, the higher the level of locus of control owned by the individual, the better the individual's financial management behavior will be.

According to Ghufron & Risnawati (2010), there are the different characteristics between Internal Locus of Control and External Locus of Control, which are as follows:

1. Internal Locus of Control
    a. Hard worker.
    b. Have high initiative or creativity.

c. Always try to solve problems.
d. Effective thinking.
e. Always have the perception that effort must always be made if you want to get success.

2. External Locus of Control
    a. Lack of initiative or creativity.
    b. Quitter.
    c. Always think that there is a correlation between effort and success.
    d. Lack of searching for information.

2.4.2 Locus of Control Indicators

Based on research conducted by Rotter (1966), The indicators used to measure Locus of Control are as follows:

1. Internal Locus of Control:
   Ability and Effort determine what is obtained in life.
2. External Locus of Control:
   Life is determined by environmental forces.

2.5 Previous Research

This previous research has become one of the researcher's references in conducting research so that the researcher can enrich the theory used in assessing the research undertaken. The following is pilot study in the form of several journals related to the research that conducted by the researcher.

Table 2.1 Previous Research

No.	Title	Author	Variables	Method	Result
1	Factors Affecting Personal Financial Management Behaviors: Evidence from Vietnam	(Mien & Thao, 2015)	Financial Attitude, Financial Knowledge, Locus of Control, Financial Management Behavior.	Cronbach's alpha, Exploratory factor analysis and Confirmatory factor analysis.	The results showed that financial attitude, financial knowledge or locus of control, had a significant influence on financial management behavior

2	Analysis Factors Influencing Financial Management Behaviour	(Prihartono & Asandimitra, 2018)	Financial Attitude, Locus of Control, Financial Management Behavior.	Multiple Regression Analysis.	The results showed that income had an effect on financial management behavior. Higher Education Learning has no effect on financial management behavior. Financial knowledge has no effect on financial management behavior. Financial literacy has an effect on financial management behavior. Financial attitude has an effect on financial management behavior. Locus of control has no effect on financial management behavior.
3	The Effect of Financial Knowledge and Financial Attitude on Financial Management Behavior Mediated with Locus of Control	(Agustina, 2020)	Financial Knowledge, Financial Attitude, Locus of Control, Financial Management Behavior	Multivariate Analysis (MVA)	The results showed that the effect of financial knowledge and financial attitude on financial management behavior through the locus of control showed a significant impact. The higher financial knowledge and financial attitudes make financial management behavior high, through an increased locus of control.
4	The Influence of Financial Knowledge,	(Arifin, 2017)	Financial Knowledge, Financial	Structural Equation	The results showed that financial knowledge and locus

	Control and Income on Individual Financial Behavior		Control, Income, Financial Behavior	Modeling (SEM).	of control have a significant effect on financial behavior, while income does not provide the same direction.
5	Pengaruh Financial Attitude, Financial Knowledge, ParentalIncome Terhadap Financial Management Behavior	(Herdjiono & Damanik, 2016)	Financial Management Behavior, Financial Attitude, Financial Knowledge, Parental Income	Correspondence Analysis and Chi-Square	The result showed that Financial Attitude has an effect on financial management behavior. While Financial knowledge has no effect on financial management behavior. And so does the Parental income.
7	Financial Behavior of Female Teacher in Malaysia	(Zaimah, et al., 2013)	Financial Behavior, Income, Educational Level, Age	Multiple Linear Regression Analysis	The result showed that Income and Educational Level have an affect on financial behavior. Meanwhile, Age does not affect financial behavior.

2.6 Conceptual Frameworks

Conceptual framework is a conceptual model of how the theory relates to various factors that have been identified. A framework of thought will link theoretically between each variable (Sugiyono, 2012). This research was also conducted to see the factors affecting personal financial management behavior. The difference in the results of this study adjusted to the existing theory indicates that there are other variables that are thought to be indirect variables that influence financial knowledge, financial attitude and locus of control on financial management behavior. And based on this description, the conceptual framework of the research is described as follows:

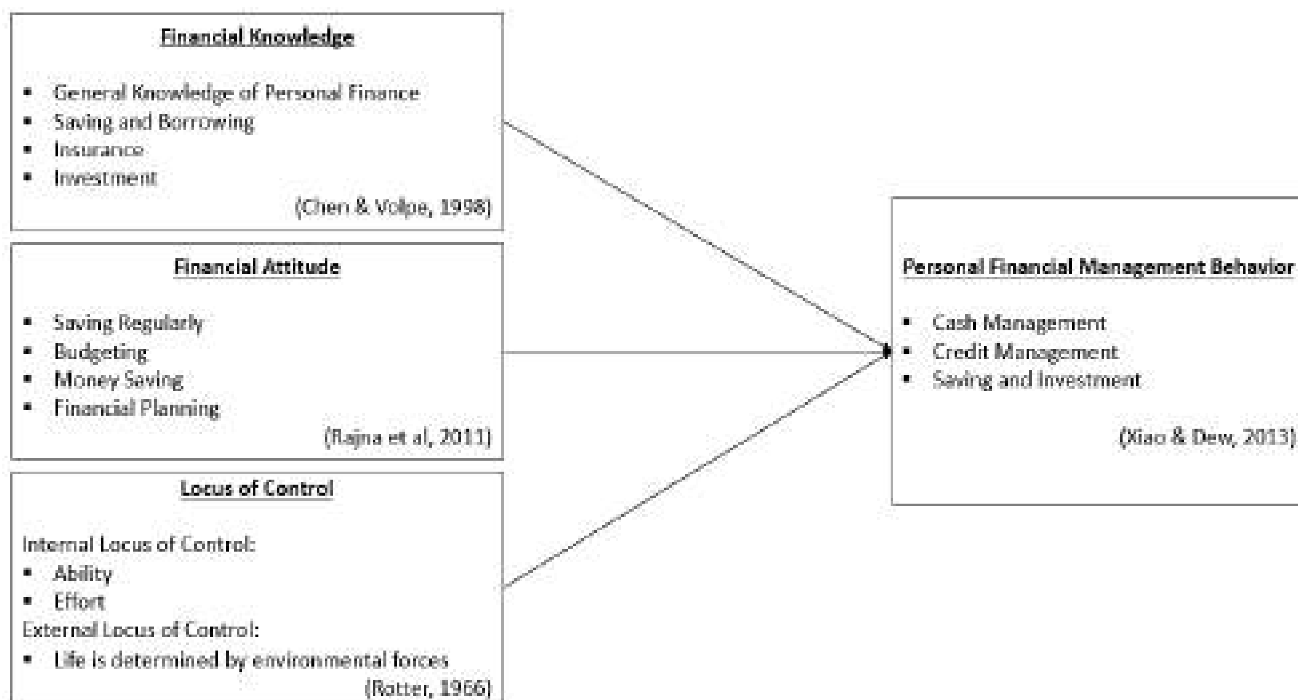

Figure 2. 1 Conceptual Frameworks

2.7 Hypotheses

The hypothesis is a temporary answer to the formulation of the research problem, where the research problem formulation has been stated in the form of sentence questions (Sugiyono, 2015). The rejection and acceptance of the hypothesis depend on the results of the investigation of the facts. Thus, a hypothesis is a formulation of temporary conclusions which will apply if it has been proven true. The broad hypotheses of this study are:

I. Financial Knowledge and Personal Financial Management Behaviors

The term financial knowledge is defined as an individual's knowledge and understanding of personal finance. According to Chan and Volpe (1998), someone's financial knowledge can influence someone's opinions and decisions. According to Mason and Wilson (2000), financial knowledge is an individual's decision making that uses a combination of several skills, resources, and conceptual knowledge to manage information and make decisions regarding their personal finance. Meanwhile, Knowledge refers to what individuals know about personal finance matters, as measured by their level of

knowledge about various personal finance concepts (Marsh, 2006). Individuals who have good financial knowledge will be able to use the money as needed. The relationship of these two variables is conclusive, with all studies finding that having financial knowledge does influence individuals to behave in a more financially responsible way (Robb and Woodyard, 2011; Zakaria et al., 2012). In addition, individuals who are financially knowledgeable are more likely to behave in a financially responsible way (Hogarth and Hilgert, 2002). Therefore, this study suggests the following hypothesis:

Hypothesis 1 (H1): There is a positive relationship between financial knowledge and personal financial management behavior.

II. Financial Attitude and Personal Financial Management Behaviors

According to Pankow (2012), attitude is a measure of a person's state of mind, opinion, and assessment of the world that is explored. Meanwhile, according to Robbins & Judge (2008), attitude is an evaluative statement both pleasant and unpleasant towards objects, individuals, and events. Attitude refers to how a person feels about personal financial matters, which is measured by the response to a statement or opinion (Marsh, 2006). Personal financial management behavior refers to how a person / individual behaves with personal finances, which is measured by the individual's actions (Marsh, 2006). Hayhoe, et.al (1999) also 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 their personal financial management behavior. Lim and Teo (1997) and Madern and Schors (2012) stated that a number of financial attitudes are also related to financial difficulties that are often faced by young people. According to Herdjiono & Damanik (2016), financial attitudes affect financial management behavior. According to Ersha Amanah, Dadan Rahadian and Aldila Iradianty (2016), financial attitudes affect personal financial management behavior. Thus, one hypothesis is suggested as follows:

Hypothesis 2 (H2): There is a positive relationship between financial attitude and personal financial management behavior.

III. Locus of Control and Personal Financial Management Behaviors

The concept of locus of control was first put forward by Rotter (1966), an expert on social learning. Locus of control relates to a person's beliefs or views about events and whether they can control those events (Robbins, 2001). Rotter divides the locus of control into two, namely internal locus of control and external locus of control. Someone with an internal locus of control considers skills, abilities, and efforts to determine what they get in life. While external locus of control assumes that life is determined by forces from outside oneself, such as fate, destiny, luck and other people in power. Based on the results of McGee's (2013) research, internal locus of control is very influential in achieving big profits by believing in one's own strength. Meanwhile, according to Kesavayuth (2019), locus of control is important for someone in taking risks where risk taking affects someone in making a decision. Thus, one hypothesis is suggested as follows:

Hypothesis 3 (H3): There is a positive relationship between locus of control and personal financial management behavior.