

THE EFFECT OF INCOME AND FINANCIAL LITERACY ON FINANCIAL BEHAVIOR: A CASE STUDY OF ENTREPRENEURIAL BEHAVIOR AT PASAR PAGI SAMARINDA

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ABSTRACT

The purpose of this study was to examine the effect of income and financial literacy on financial management behavior among entrepreneurs at Pasar Pagi Samarinda. This study used primary and secondary data with a quantitative approach. The sample was determined through purposive sampling, involving 90 respondents who were entrepreneurs registered at Pasar Pagi and had operated their businesses for more than six months. Data were analyzed using validity and reliability testing, index numbers, and Partial Least Squares (PLS) through outer model and inner model testing. The findings showed that income did not have a positive and significant effect on financial management behavior, whereas financial literacy had a positive and significant effect on financial management behavior. These results indicated that financial knowledge and understanding are more relevant than income level in shaping responsible financial behavior among market entrepreneurs.



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INTRODUCTION

Financial management behavior is an activity of managing funds in daily life carried out by individuals or groups with the aim of achieving financial well-being. Financial management behavior is important in community life because individuals are required to balance income and expenditure so that their living needs can be fulfilled and they do not fall into financial difficulty.

Along with technological development and the ease of internet use, people who want to start entrepreneurial businesses have more opportunities. They can obtain product distribution more easily because technology has become increasingly sophisticated, and people can also sell their products online. Entrepreneurship is one way for a person to work and build a career for the future. Entrepreneurship can create new job opportunities for people who need employment, and it can also help the government reduce unemployment growth.

To address unemployment and poverty in Indonesia, financial behavior is understood as a person's ability to manage daily finances properly. A person is required to balance income and expenses so that living needs can be met and financial difficulties can be avoided. Financial management behavior refers to how a person manages and uses the financial resources under their responsibility. Individuals with responsible management behavior tend to be effective in using the money they have, such as by preparing budgets, saving money, shopping wisely, investing, and paying obligations on time.

Financial Management Behavior is operationally defined as financial behavior related to how a person treats, manages, and uses the financial resources available to them. Individuals who have responsible Financial Management Behavior tend to be effective in using their money, such

as by preparing budgets, saving money, controlling spending, investing, and paying obligations on time (Nababan & Sadalia, 2012). The indicators used to measure Financial Management Behavior include paying bills on time, preparing expenditure and shopping budgets, recording expenses and purchases, providing funds for unexpected expenses, saving periodically, and comparing prices before deciding to make a purchase.

Personal income is the total gross income of an individual, which comes from wages, business enterprises, and various investments. It is likely that individuals with higher income will show more responsible financial management behavior because the available funds give them the opportunity to act responsibly. Hilgert et al. (2003) reported that respondents with lower income were more likely to report paying their bills less punctually than those with higher income. Income can also be defined as the total amount of money received by a person within a certain period of time, usually one month (Herlindawati, 2015).

Financial Literacy is a person's ability to make informed judgments and effective decisions regarding the use and management of money. According to Kim (2001) in Sabri (2011), financial literacy is the basic knowledge that people need to survive in modern society. This basic knowledge involves knowing and understanding complex principles in spending, saving, and investing. Lusardi and Mitchell (2007) explained that Financial Literacy is a person's knowledge of financial instruments, including savings, insurance, investments, and other financial tools.

Previous research conducted by Nur Fatimah and Susanti (2018) found that income has a positive and significant effect on financial behavior. Novianti (2016) also stated that income has a significant positive effect on financial management behavior. Other studies by Shahrabani (2012), Laily (2013), and Sundarasen (2016) showed that financial literacy has a significant positive effect on financial management behavior. This study contributes by examining the relationship between income, financial literacy, and financial management behavior in the specific context of entrepreneurs at Pasar Pagi Samarinda.

Based on the theoretical review and previous studies, this study proposed two hypotheses. H1: Income has a positive effect on Financial Behavior. H2: Financial Literacy has a positive effect on Financial Behavior.

METHOD

The data sources in this study were primary and secondary data. The population in this research was entrepreneurs at Pasar Pagi Samarinda. The sample size was determined by multiplying the number of indicators by 5; in this study, there were 18 indicators. Thus, the sample size obtained was $18 \times 5 = 90$ respondents.

This study used a purposive sampling approach. This sampling technique was carried out by selecting members of the population who were most appropriate and met the criteria, namely entrepreneurs registered in a place or area at Pasar Pagi in Samarinda and entrepreneurs whose businesses had been operating for more than 6 months. The analytical tool used in this study was PLS (Partial Least Squares).

RESULTS AND DISCUSSION

Partial Least Squares (PLS)

The method used in this study was the Partial Least Squares (PLS) data analysis method, in which three stages of structural analysis can be carried out, namely outer model analysis, inner model analysis, and hypothesis testing. Outer model analysis was conducted to ensure that the measurement used was feasible as a measurement tool, both valid and reliable. Outer model analysis can be seen from several indicators, namely convergent validity, AVE, composite reliability, and Cronbach's alpha (Abdillah & Hartono, 2015:195).

Inner model analysis was conducted to ensure that the structural model developed was accurate. Inner model evaluation can be seen from several indicators, namely the coefficient of determination, predictive relevance, and goodness-of-fit index (Abdillah & Hartono, 2015:165). Hypothesis testing was carried out by looking at the probability value and t-statistic. For the probability value, the p-value with an alpha of 5% is less than 0.05. The t-table value for an alpha

of 5% is 2.028, so the criterion for accepting the hypothesis is when the t-statistic is greater than the t-table (Abdillah & Hartono, 2015:164).

Outer Model Analysis

Outer model analysis defines the relationship between latent variables and their indicators, or it can be said that the outer model defines how each indicator is related to its latent variable. Construct validity testing can be determined using convergent validity values and extracted mean variance, while construct reliability testing can be determined using composite reliability values.

Convergent validity aims to show that statements about each variable in this study were understood by respondents in the same way as intended by the researcher. The validity of the reflective indicator measurement model was evaluated using the correlation between product or component scores assessed by SmartPLS software. A factor loading greater than 0.7 is strongly recommended, but a loading factor of 0.50 to 0.60 can still be tolerated as long as the model is still in the development stage. In this study, a loading factor threshold of 0.50 was used. Figure 1 presents the SEM-PLS model calculation results.

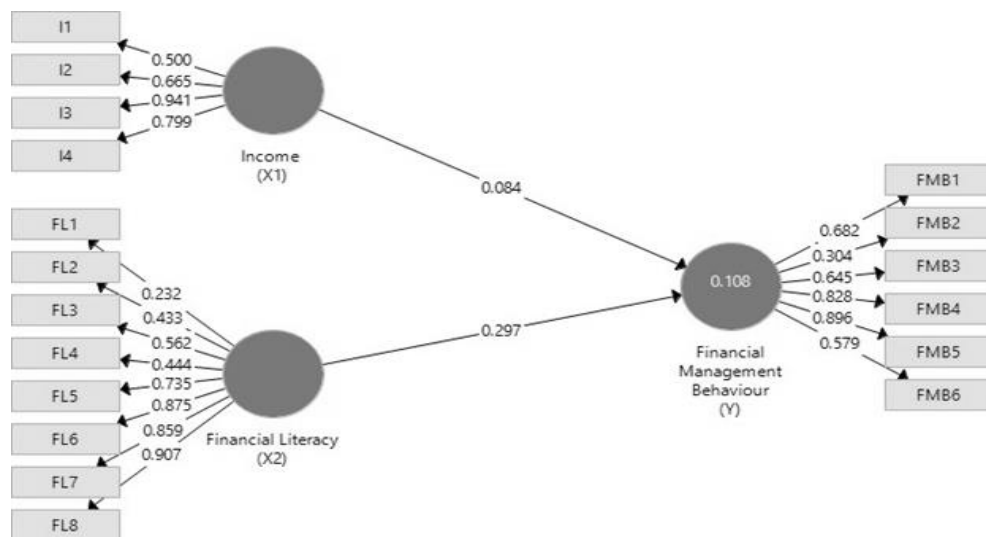


Figure 1. PLS Model 1

Discriminant validity proves that respondents who answer the survey based on questions about other variables do not have questions about each variable mixed together, especially in terms of the meaning of the questions. A discriminant validity test using indicator cross-loading values meets discriminant validity if the cross-loading value of an indicator for a variable is the highest compared with other variables. The cross-loading values for each indicator are presented in Table 1.

Table 1. Cross Loading

Variable	Income	Financial Literacy	Financial Management Behavior
I2	0.618		
I3	0.964		
I4	0.808		
FL3		0.566	
FL5		0.757	
FL6		0.900	
FL7		0.897	
FL8		0.925	
FMB1			0.679
FMB3			0.676
FMB4			0.853
FMB5			0.889

Variable	Income	Financial Literacy	Financial Management Behavior
FMB6			0.552

Construct validity is assessed not only through convergent validity but also through AVE (Average Variance Extracted). The expected AVE value is greater than 0.5. From the table above, it can be seen that the loading factor value of each indicator variable for each latent variable is greater than the loading value associated with other latent variables. This means that each latent variable has good discriminant validity if the measurement of several latent variables is highly correlated with other constructs.

The composite reliability score is the reliability score possessed by a variable, with an expected value above 0.5. In Table 2, it is known that there were still AVE values below 0.5. Therefore, the tested model still had convergent validity problems, so the construction of the research model needed to be modified.

Table 2. AVE Values Before Modification

Variable	AVE
Income	0.554
Financial Literacy	0.453
Financial Management Behavior	0.466

Table 3. Composite Reliability and AVE After Modification

Code	Variable	Composite Reliability > 0.7	Average Variance Extracted > 0.5	Description
X1	Income	0.846	0.655	Reliable
X2	Financial Literacy	0.909	0.673	Reliable
Y1	Financial Management Behavior	0.855	0.547	Reliable

From Table 3, it can be concluded that the reliability of all constructs is good. This is proven by the recommended AVE values for income, financial literacy, and financial management behavior, which are above 0.5. All constructs also have high reliability values above 0.7 for composite reliability.

Inner Model Analysis

Inner model or structural model testing was carried out to examine the relationship between constructs, significance values, and R-square of the research model. The structural model was evaluated using R-square for dependent constructs and path coefficient or t-values for each path to test the significance between constructs in the structural model. Figure 2 presents the structural model.

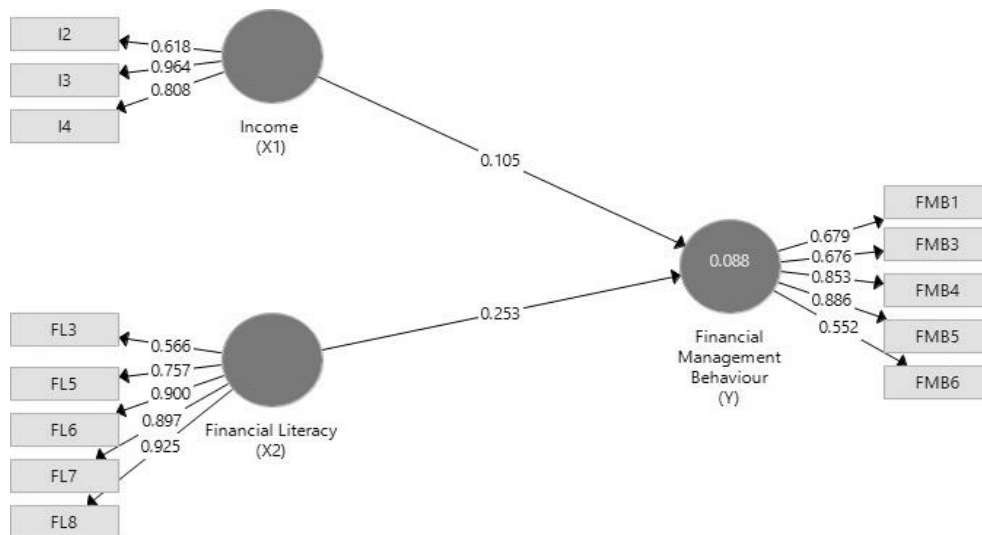


Figure 2. Structural Model

Goodness-of-Fit Model Evaluation

In assessing the model with SmartPLS, the process can begin by looking at the R-square for each dependent latent variable. Table 4 presents the R-square estimation results using SmartPLS3.

Table 4. R-square

Variable	R-Square
Income	
Financial Literacy	
Financial Management Behavior	0.08

The table shows the R-square value for the financial management behavior variable of 0.088, meaning that this model explains the financial management behavior phenomenon influenced by financial literacy and financial attitude by 0.08%, while the remaining 91.2% is explained by variations in other variables outside the research model.

Hypothesis Testing

Hypotheses can be tested by examining the t-statistic value and probability value. For hypothesis testing using the t-statistic value, the alpha of 5% uses a t-statistic value of 1.96. Therefore, the criterion for accepting the hypothesis is that H_a is accepted if the t-statistic value is greater than 1.96 and rejected if the t-statistic value is less than 1.96. To reject or accept the hypothesis using probability, H_a is accepted if the p value is less than 0.05 (Hussein, 2015:20). Figure 3 presents the PLS bootstrapping results.

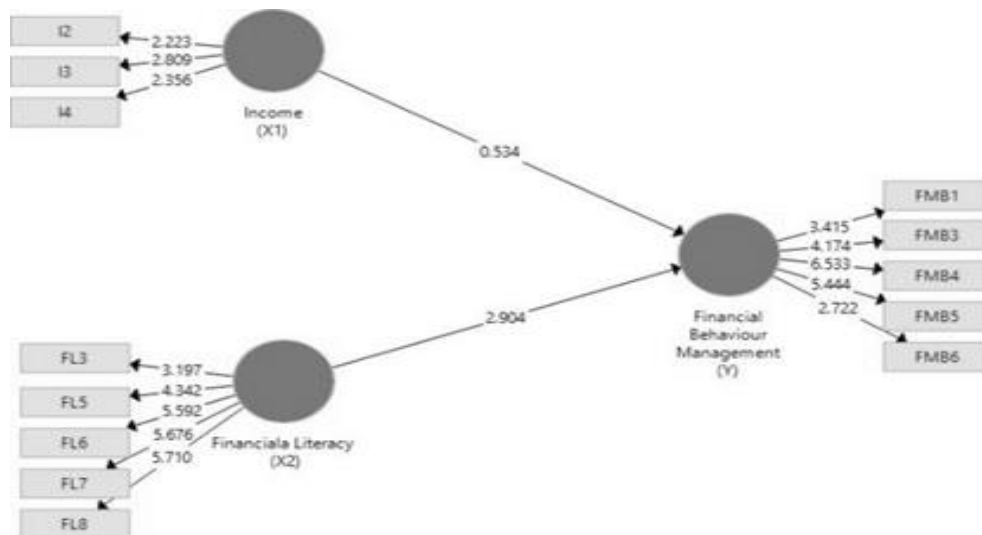


Figure 3. PLS Bootstrapping Result Display

To assess the significance of the prediction model in structural model testing, the t-statistic value between variables can be seen in the path coefficient table from the SmartPLS output, as presented in Table 5.

Table 5. Path Coefficient (Mean, STDEV, t-Value)

Relationship	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistic (O/STDEV)	P Values
I - FMB	0.105	0.127	0.197	0.534	0.593
FL - FMB	0.253	0.276	0.087	2.904	0.004

Discussion

The results of the first hypothesis test show that the relationship between income and financial management behavior has an original sample estimate value of 0.253, with a t value of 0.534 and a p value of 0.593. These values do not meet the acceptance requirement, namely a calculated t value greater than 1.96 and a p value below 0.05. Thus, it can be concluded that income does not have a positive and significant effect on Financial Management Behavior among entrepreneurs at Pasar Pagi Samarinda. This means that Hypothesis 1 is rejected.

The SmartPLS analysis conducted in this study shows that income does not have a positive and significant effect on Financial Management Behavior. This is proven by the t-statistic value, which is smaller than 1.96, namely 0.534, and the p value of 0.593. The results of this study show that the income obtained by each entrepreneur, whether high or low, does not affect individual financial behavior. This problem can be seen in how entrepreneurs with high income are not always able to manage expenses effectively and efficiently because their financial behavior cannot always be controlled, especially when combined with unexpected expenses.

Therefore, entrepreneurs with high income levels often experience financial problems because, basically, every person whose income increases also tends to have high and numerous expenses, resulting in income expenditure beyond limits. The findings of this study are in line with Hilgert et al. (2003), Kholilah and Iramani (2013), and Ida and Dwunta (2010), who stated that the amount of a person's income does not necessarily affect Financial Management Behavior. This is also not strongly related to the Theory of Planned Behavior, in which behavioral performance is a function of intention and perceived behavioral control (Ajzen & Fishbein, 1977; Ajzen, 1988).

The results of the second hypothesis test show that the relationship between Financial Literacy and Financial Management Behavior has an original sample estimate value of 0.253, with

a t value of 2.904 and a p value of 0.004. This value is greater than the t-table of 1.96. Thus, it can be concluded that Financial Literacy has a positive and significant effect on the behavior of entrepreneurs at Pasar Pagi Samarinda. This means that Hypothesis 2 is accepted.

The SmartPLS analysis conducted in this study shows that Financial Literacy has a positive and significant effect on Financial Management Behavior. This is proven by the t-statistic value, which is greater than 1.96, namely 2.904, and the p value of 0.004. This means that the higher the level of financial literacy of entrepreneurs at Pasar Pagi Samarinda, the higher their financial behavior in organizing and managing their finances.

These findings are in line with Azizah (2020), who stated that Financial Literacy has a positive and significant effect on financial behavior among the millennial generation. The results of the Financial Literacy indicators also show that the highest indicator was FL8, namely that all types of investment affect the future value of savings, at 0.925, while the lowest was FL3, namely that credit card holders can spend money without limit, at 0.566. These results indicate that entrepreneurs prepare for their future by making investments or increasing savings so that the desired future value can be realized.

Investment can be carried out by all levels of society. Savings and investment also serve as benchmarks for future economic growth. Economic growth can be measured by the level of investment and the level of public savings in a country; the higher these are, the better the economy can move. The findings of this study are consistent with Dayanti and Susyanti (2020), Sampoerni and Asandimitra (2021), Andarsari and Ningtyas (2019), Wiranti (2022), and Herawati et al. (2018), who stated that Financial Literacy affects Financial Management Behavior.

Financial Literacy affects Management Behavior because financial behavior is related to how a person treats, manages, and uses financial resources. A person with good financial literacy can behave wisely and rationally in making financial decisions or managing finances because financial behavior is one form of implementation of the level of financial literacy possessed. People who have good financial literacy will be wiser in making personal financial decisions and their financial behavior will be more rational (Scheresberg, 2013). Conversely, if entrepreneurs at Pasar Pagi do not have good financial literacy, this will affect their welfare in the future (Radianto et al., 2020).

CONCLUSION

Based on the research results and discussion, it can be concluded that income does not affect Financial Management Behavior. This is not in accordance with the hypothesis stating that income affects Financial Management Behavior. This occurs because the income received cannot always be allocated properly through an understanding of money management, which may continue to cause financial problems for entrepreneurs and lead to excessive income expenditure. This makes it difficult for entrepreneurs to organize and manage their finances properly, especially when unexpected expenses occur. Therefore, Hypothesis 1 is rejected.

Financial Literacy affects Financial Management Behavior. The results of this study show that the higher an entrepreneur's financial literacy, the better the entrepreneur will be in managing basic financial concepts, loan concepts, savings and investment concepts, and protection concepts. Therefore, the hypothesis stating that Financial Literacy affects Financial Management Behavior is accepted.

Based on these results, knowledge in managing finances should be implemented in practice in order to minimize uncontrolled expenses, encourage entrepreneurs to restrain excessive expenditure, and apply financial knowledge in real terms. Future researchers are expected to use other variables outside this study and apply different analytical methods to obtain more varied results, so that new perspectives can be produced through subsequent research.

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