
Proceeding Medan International Conference Economics and Business

Volume 1, Year 2023

"Entrepreneurship on Global Economics Development in the Era of Society 5.0"

The Influence of Financial Literacy and Locus of Control on the Financial Behavior of Smes Medan City**Sri Pujil Lestari^{1*}, Linzzy Pratami Putri¹, Adevia Rosela¹**¹Universitas Muhammadiyah Sumatera Utara

Jl. Kapten Mukhtar Basri No. 3 Medan

***Email:** sripujilestari@umsu.ac.id**ABSTRACT**

The purpose of this study was to examine and analyze the effect of financial literacy on financial behavior, to examine and analyze the effect of locus of control on financial behavior, to examine and analyze the effect of financial literacy and locus of control on financial behavior of MSMEs in KampungAur in Medan City. The population in this study was MSMEs in the KampungAur area, where the number of samples that were determined and used in this study were 80 people. The data collection technique used in this study was a questionnaire. The analysis technique used in this study is multiple linear regression, classical assumptions, hypothesis testing and coefficient of determination. The results of the study indicate that there is a positive influence of financial literacy variables on financial behavior variables, there is a positive influence of locus of control variables on financial behavior variables. Medan.

Keywords: Financial Literacy, Locus Of Control and Financial Behavior

Proceeding Medan International Conference Economics and Business

Volume 1, Year 2023

“Entrepreneurship on Global Economics Development in the Era of Society 5.0”

INTRODUCTION

UMKM is a form of community small business whose establishment is based on someone's initiative. The role of MSMEs is very strategic in the economy as one of the main driving forces in economic development. In North Sumatra itself, especially the city of Medan, which is one of the big cities in Indonesia, has a fairly high level of economic growth, especially in the development of MSMEs (Harahap, 2020). Chairman of the Indonesian MSME Association Muhammad Ikhsan Ingratubun said data per 2018 that the MSME sector contributed IDR 8,400 trillion to the Gross Domestic Product (GDP). This figure is equivalent to 60% of IDR 14,000 trillion of Indonesia's GDP in 2018 (Hartomo, 2018). The data proves that MSMEs are supporters in improving the Indonesian economy.

The role of Micro, Small and Medium Enterprises (MSMEs) is the best solution because MSMEs can create job opportunities which in turn can overcome the problem of unemployment. The Micro, Small and Medium Enterprises (MSMEs) sector has enormous market opportunities because there is always a market for the production of their goods and services, considering that the Micro, Small and Medium Enterprises (MSMEs) sector is a producer of goods and services, especially for the middle and lower class people with high purchasing power low (Ardiyanto&Setiawan, 2013). Good financial behavior is shown by good financial planning, management and control activities. Indicators of good financial behavior can be seen in a person's way/attitude in managing the entry and exit of money, credit management, savings and investment (Humaira&Sagoro, 2018). In order for finance to be obtained efficiently, it is important for individuals to understand financial behavior.

There are several things that can affect financial behavior, including financial literacy and locus of control. According to (Herawati, 2015) financial literacy has a significant effect on financial behavior, people with a low level of financial literacy make more wrong and undirected financial decisions compared to people who have a higher level of financial literacy, can manage their finances well, and have a locus of control. has a significant effect on financial behavior, where individuals with a locus of control tendency will have confidence in being able to solve everyday financial problems, so they try to do good financial management. Financial literacy is education and understanding of the various ins and outs of financial management, so that a person is able to manage personal finances properly and efficiently and is able to make the right financial decisions such as investments, insurance, property, education and health costs, making installments, retirement and tax planning. Financial literacy is also considered as a solution that helps someone avoid financial problems. Financial matters are not just about low income, but rather also mistakes in managing finances such as excessive use of credit cards, wrong financial planning to preparing for an established retirement (Gunawan, Pulungan, & Koto, 2019).

In addition to financial literacy, locus of control also influences financial behavior, where locus of control is a person's perspective on an event whether he can or cannot control the events that happen to him (Ghufron&Risnawita, 2014). Locus of control is an individual's perspective on an event related to an event that happened to him related to the individual's belief that events in his life are under his control (Kholilah&Iramani, 2013). Locus of Control is also a business where a person has responsibility for events that will occur within his own control or beyond his own control (Mien &Thao, 2015).

METHOD

This type of research is to use associative research, the associative approach is an approach in which to find out that there is a relationship or influence between the two

Proceeding Medan International Conference Economics and Business

Volume 1, Year 2023

“Entrepreneurship on Global Economics Development in the Era of Society 5.0”

variables (the independent variable and the dependent variable). The data collection technique used is to use a list of statements (questionnaire). The population in this study are SMEs in the KampungAur area. The number of samples that were determined and used in this study were as many as 80 people who met the established criteria and were carried out 8 days within 1 month. Data processing uses SPSS software version 2.3, with instrument testing, classical assumption testing, and data analysis techniques using multiple linear regression analysis.

RESULT AND DISCUSSION

Table 1. Multicollinearity Test Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|-------|-----------------------------|------------|---------------------------|-------|-------|-------------------------|------------|
| | B | Std. Error | Beta | | | Tolerance | VIF |
| | (Constant) | 5.949 | 2.705 | 2.200 | .031 | | |
| 1 | LK | .212 | .091 | .189 | 2.333 | .022 | .518 1.931 |
| | LC | .702 | .080 | .716 | 8.822 | .000 | .518 1.931 |

a. Dependent Variable: PK

Source: SPSS software version 2.3

In the table above it can be concluded as follows:

- Financial Literacy (X1) with a tolerance value of 0.518 greater than 0.10 and a VIF value of 1.931 less than 10.
- Locus Of Control (X2) with a tolerance value of 0.518 greater than 0.10 and a VIF value of 1.931 less than 10.

Because the tolerance value obtained for each variable is greater than 0.10 and the VIF value obtained for each variable is less than 10, it means that the financial literacy variable data and locus of control are free from any symptoms of multicollinearity

Multiple Linear Regression Analysis

Based on the calculation of multiple linear regression analysis performed through statistics, the following results are obtained:

Table 2. Multiple linear regression Coefficients^a

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|-------|-----------------------------|------------|---------------------------|-------|-------|-------------------------|------------|
| | B | Std. Error | Beta | | | Tolerance | VIF |
| | (Constant) | 5.949 | 2.705 | 2.200 | .031 | | |
| 1 | LK | .212 | .091 | .189 | 2.333 | .022 | .518 1.931 |
| | LC | .702 | .080 | .716 | 8.822 | .000 | .518 1.931 |

a. Dependent Variable: PK

Source: SPSS software version 2.3

Based on the SPSS output above, the regression equation is obtained as follows: $Y = 5.949 + 0.212X_1 + 0.702 X_2 + e$

- Constant = 5.949.

Proceeding Medan International Conference Economics and Business

Volume 1, Year 2023

“Entrepreneurship on Global Economics Development in the Era of Society 5.0”

If the variables of financial literacy and locus of control are assumed to be constant, financial behavior will increase by 5.949.

b. Coefficient of Financial Literacy X1

The financial literacy coefficient is 0.212. Stating that every time there is a 100% increase in financial literacy there will be an increase in financial behavior of 21.2%.

c. Coefficient of Locus Of Control X2

The locus of control coefficient value shows a number of 0.702. states that if there is a 100% increase in locus of control, it will be followed by an increase in financial behavior of 70.2%.

Hypothesis testing

Table 3. Partial Test (t test)
Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | Collinearity Statistics | |
|-------|------------|-----------------------------|------------|---------------------------|-------|------|-------------------------|-------|
| | | B | Std. Error | Beta | | | Tolerance | VIF |
| 1 | (Constant) | 5.949 | 2.705 | | 2.200 | .031 | | |
| | LK | .212 | .091 | .189 | 2.333 | .022 | .518 | 1.931 |
| | LC | .702 | .080 | .716 | 8.822 | .000 | .518 | 1.931 |

a. Dependent Variable: PK

Source: SPSS software version 2.3

Based on the partial test results for the financial literacy variable, tcount (2.333) >ttable (1.990) with a significance value of 0.022 <0.05 means Ho is rejected and Ha is accepted. This shows that partially that there is a significant effect of financial literacy on financial behavior. Based on the results of the partial test for the locus of control variable, it was obtained tcount (8.822) >ttable (1.990) with a significance value of 0.000 <0.05, then Ho was rejected and Ha was accepted. This shows that partially that there is a significant effect of financial literacy on financial behavior.

Table 4. Simultaneous Test (Test F)
ANOVA^a

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|---------|-------------------|
| 1 | Regression | 565.715 | 2 | 282.857 | 107.997 | .000 ^b |
| | Residual | 201.673 | 77 | 2.619 | | |
| | Total | 767.387 | 79 | | | |

a. Dependent Variable: PK

b. Predictors: (Constant), LC, LK

Source: SPSS software version 2.3

From the ANOVA test or F test, the value of Fcount (107.997) >Ftable (3.12) is obtained with a significance level of 0.000. Because the significant probability is much smaller than 0.05, Ho is rejected and Ha is accepted. This shows that simultaneously stating that there is a significant influence of financial literacy and locus of control together on financial behavior.

Proceeding Medan International Conference Economics and Business

Volume 1, Year 2023

"Entrepreneurship on Global Economics Development in the Era of Society 5.0"

Table 5. Coefficient of Determination
Model Summary^b

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|-------------------|----------|-------------------|----------------------------|---------------|
| 1 | .859 ^a | .737 | .730 | 161.837 | 2.223 |

a. Predictors: (Constant), LC, LK
b. Dependent Variable: PK

Source: SPSS software version 2.3

Based on table 4.12 above, it can be seen that the Adjusted R Square value is 0.730 or 73%, which means that the effect of financial literacy and locus of control on financial behavior is 73%, while the remaining 27% are other variables not examined by this study, for example attitudes, knowledge in financial management and other variables.

DISCUSSION

The Effect of Financial Literacy on Financial Behavior

There is a positive effect of the financial literacy variable (X1) on the financial behavior variable (Y) which is shown by $t_{count} (2.333) > t_{table} (1.990)$ with a significance value of $0.022 < 0.05$. With a relationship like this, it implies that the higher / better X1 (financial literacy) is, the higher / better the variable Y (financial behavior) will be. Then it was also found that financial literacy has a significant effect on financial behavior. Financial literacy in the form of knowledge about savings, insurance, debt, investment, and others will influence a person's behavior. The more a person knows about financial components, the wiser a person will be in behavior related to finance. Financial literacy is very necessary in managing the finances they have. According to (Ulfatun, Udhma, & Dewi, 2016) Financial literacy is a basic need for everyone to avoid financial problems. Someone who has little knowledge of financial literacy has opinions about finances and also makes bad financial decisions.

Financial literacy has a significant effect on the financial behavior of people with a low level of financial literacy who prefer to make wrong and undirected financial decisions compared to people who have a higher level of financial literacy who can manage their finances well (Herawati, 2015). Good financial literacy can affect daily financial behavior, the more financial knowledge a person has, the more effective he is in managing his finances, both now and in the future. The results of research (Herawati, 2015) and (Mahayani, 2020) which state that financial literacy has a positive and significant effect on financial management behavior.

The Effect of Locus of Control on Financial Behavior

There is a positive influence of the locus of control variable (X1) on the financial behavior variable (Y) which is shown by $t_{count} (8.822) > t_{table} (1.990)$ with a significance value of $0.000 < 0.05$. With a relationship like this, it implies that the higher/better X1 (locus of control), the higher/better the Y variable (financial behavior). Then it was also found that locus of control has a significant effect on financial behavior.

Locus of control is an individual's perspective on an event related to an event that happened to him related to the individual's belief that events in his life are under his control (Kholilah & Iramani, 2013). Individuals with good self-control tend to save money regularly from the salary they get, meaning that individuals are ready to manage unexpected expenses

Proceeding Medan International Conference Economics and Business

Volume 1, Year 2023

“Entrepreneurship on Global Economics Development in the Era of Society 5.0”

and tend to have enough money for retirement, and individuals with low self-control have low self-confidence towards themselves to manage their finances so that individuals are less prepared to manage unexpected expenses and tend not to have enough money for retirement (Strömbäck, Lind, Skagerlund, Västfjäll, & Tinghög, 2017).

Individuals with a locus of control tendency will have confidence in being able to solve everyday financial problems, so they try to do good financial management such as setting aside money for saving and paying bills on time (Kholilah&Iramani, 2013). From the statement above it can be concluded that self-control has a positive and significant influence on financial behavior. The results of research (Herawati, 2015) and (Mahayani, 2020) which state that locus of control has a positive and significant effect on financial management behavior.

The Effect of Financial Literacy and Locus of Control on Financial Behavior

Tests carried out simultaneously showed that the financial literacy variables (X1) and locus of control (X2) had an effect on the financial behavior (Y) of MSMEs in Kampung Aur in Medan City. With a value of $F_{count} (107.997) > F_{table} (3.12)$ with a significance level of 0.000. Furthermore, the Adjusted R Square value is 0.730 or 73%, which means that the influence of financial literacy and locus of control on financial behavior is 73%, while the remaining 27% are other variables not examined by this study, for example attitudes, knowledge in financial management and variables other.

A community is said to be empowered if it has one or more of the following variables. First, having the ability to meet the basic needs of life and a stable economy. Second, have the ability to adapt to environmental changes. Third, having the ability to deal with external threats and attacks (Daulay, 2016). The relationship between financial literacy and financial management is stated in the meaning of financial literacy by (Financial Services Authorization, 2017), namely knowledge, skills and beliefs, which influence attitudes and behavior to improve the quality of decision making and financial management in order to achieve prosperity.

Meanwhile, financial management behavior refers to how a person behaves in relation to personal financial matters as measured by the individual's actions (Daulay, 2017). Individuals with good self-control tend to save money regularly from the salary they get, meaning that individuals are ready to manage unexpected expenses and tend to have enough money for retirement, and individuals with low self-control have low self-confidence. Themselves to manage their finances so that individuals are less prepared to manage unexpected expenses and tend not to have enough money for retirement (Strömbäck et al., 2017). The results of research (Herawati, 2015) and (Mahayani, 2020) conclude that financial literacy and locus of control have a positive and significant effect on financial management behavior. (Herdjiono&Damanik, 2016) which states that financial attitude influences financial management behavior.

IMPLICATIONS

Good financial literacy can facilitate the behavior of MSMEs to differentiate each financial post, whether credit or debit, so that they can manage their business finances properly. Self-control is needed by business actors, especially to be able to distinguish between personal needs and business needs. With good financial literacy and self-control, MSME players will be able to manage their finances well.

CONCLUSION

Proceeding Medan International Conference Economics and Business

Volume 1, Year 2023

"Entrepreneurship on Global Economics Development in the Era of Society 5.0"

This research only examines two variables that affect the ability to manage MSMEs in Medan City. For future researchers, it is hoped that they can add variables and change research respondents to be able to expand this research, so that they can find out what factors can increase the ability of MSME actors to manage their finances.

ACKNOWLEDGEMENT

This research is independent research supported by the Rektor of Universitas Muhammadiyah Sumatera Utara, LPPM UMSU and the Faculty of Economics and Business UMSU.

REFERENCES

- Ardiyanto, B., &Setiawan, A. H. (2013). Analysis of Credit Assistance from the Partnership and Community Development Program (PKBL) of PT. Pelabuhan Indonesia III (Persero) Branch of TanjungEmas Semarang on the Development of Small and Micro Enterprises in Semarang City, 2, 1–15.
- Daulay, R. (2016). Development of Micro Enterprises for Economic Empowerment of Muslims in the City of Medan. *MIQOT*, 40(1), 44–65.
- Ghufron, M. N., &Risnawita, S. R. (2014). *Psychological Theories*. Yogyakarta.:Ar-Ruzz Media
- Gunawan, A., Pulungan, D. R., & Koto, M. (2019). Financial Literacy Level of Lecturers of the Faculty of Economics and Business, Muhammadiyah University of North Sumatra. National Seminar & Call For Paper Master of Management Business Seminar (SAMBIS-2019), 1(2685–1474), 1–9.
- Harahap, W. S. M. (2020). Analysis of the Factors Influencing MSME Final Income Tax Acceptance in Medan City. *Journal of Accounting and Business Research*, 20(1), 74–81.
- Hartomo, G. (2018). MSMEs Contribute IDR 8,400 Trillion to the National Economy in 2018 (economy.ok.). Jakarta.
- Herawati, N. T. (2015). The Contribution of Learning in Higher Education and Financial Literacy to Student Financial Behavior. *Journal of Education and Teaching*, 1(3), 60–70.
- Herdjiono, I., &Damanik, L. A. (2016). Effect of Financial Attitude, Financial Knowledge, Parental Income on Financial Management. *Journal of Theory and Applied Management*, 9(3), 226–241.
- Humaira, I., &Sagoro, E. M. (2018). The Effect of Financial Knowledge, Financial Attitudes, and Personality on the Behavior of MSME Financial Management in Batik Craft Centers, Bantul Regency. *Nominal Journal*, 7(2).
- Kholilah, N., &Iramani, R. (2013). Study of Financial Management Behavior in Surabaya Society. *Journal of Business & Banking*, 1(1), 1–11.
- Mahayani, L.P. (2020). The Influence of Financial Literacy, Locus Of Control, and Consumerism Culture on Financial Behavior. *Talisman*, 1(1), 1–11.
- Mien, N. T., &Thao, T. P. (2015). Factors Affecting Personal Financial Management Behaviors: Evidence from Vietnam. *Proceeding of the Second Asia-Pacific Conference on Global Business, Economics, Finance and Social Science (AP15Vietnam Conference)*.

Proceeding Medan International Conference Economics and Business

Volume 1, Year 2023

“Entrepreneurship on Global Economics Development in the Era of Society 5.0”

- Strömbäck, C., Lind, T., Skagerlund, K., Västfjäll, D., & Tinghög, G. (2017). Does Self-control predict Financial Behavior and Financial Well-being? *Journal of Behavioral and Experimental Finance*, 14(1), 30–38.
- Ulfatun, T., Udhma, U. S., & Dewi, R. S. (2016). Analysis of the Financial Literacy Level of Students of the Faculty of Economics, Yogyakarta State University, Class of 2012-2014. *Pelita - UNY Student Research Journal*, 11(2), 1–13.