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Financial Knowledge as Youth Preneur Success Factor

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Abstract: Indonesia currently has developed entrepreneurship both conceptually and practically and has developed very rapidly. Knowledge that must be possessed by an entrepreneur is financial knowledge. Adequate financial knowledge is needed to provide entrepreneurial skills to make sound financial decisions. Other variables of financial behavior that are important to be measured along with financial knowledge on the success of young entrepreneurial business are the level of financial behavior and financial literacy. This research was designed as explanatory research to explain the subject of the influence of financial knowledge, financial literacy, and financial attitude towards young entrepreneurial success. The research was conducted in the city of Surabaya. The population of this study is young entrepreneurs who have micro businesses. The sampling technique is done in a way cluster sampling. The analytical method used in this study is to use multiple linear regressions with validity test, reliability test, classic assumption test, and hypothesis testing.

Keywords: *Financial knowledge, financial literacy, financial attitude, and young entrepreneurial success.*

1. Introduction

As a form of involvement, Indonesia has also developed entrepreneurship both conceptually and practically and has experienced very rapid development. In East Java Province also cannot be separated from the 2015 MEA competition. Small and Medium Enterprises (SMEs) become a sector that is able to sustain economic growth in East Java (East Java). Surabaya became one of the cities in East Java with a good growth of SMEs. Referring to the results of the national social economic survey (Susenas), in 2008 SMEs in Surabaya numbered 4.2 million the number continues to be discussed, increasing to 6.8 million in 2012 and rising again to 9.59 million in 2016. Adequate financial knowledge is needed to provide entrepreneurial skills to make sound financial decisions. Given the importance of financial knowledge, several financial behavior surveys have been conducted in various parts of the world to measure the level of financial literacy. It was found that there were variations in the average level of financial knowledge in various countries.

Furthermore, there is corroborating evidence that financial knowledge plays an effective role in financial decision making, such as retirement planning, stock market participation and investment (Lusardi, Mitchell, & Curto, 2010; Mandell & Klein, 2007; Van Rooij, Kool, & Prast, 2007). In short, the level of financial knowledge contributes to better asset development and debt management. Researchers generally agree that financial knowledge seems to be directly correlated with financial behavior that benefits oneself Hilgert, Hogarth, & Beverly, S. G. (2003). For example, Perry & Morris, (2005) found that financially educated individuals are more likely to budget, store and plan future plans. Chang and Hanna (1992) report that individuals with high levels of financial knowledge are more efficient decisions when compared to those who have a low level of financial literacy if the level of financial literacy is owned by an entrepreneur, it is expected to be a good capital in making business financial decisions. The results of Orton, (2007) study, financial knowledge or financial knowledge is a useful tool for making financial decisions so that it becomes quite important for life.

The more knowledge related to finance, the better the financial decisions taken, so it is likely that, they will show responsible financial management behavior. Variables of other financial behaviors that are important to be measured along with financial knowledge to the success of young entrepreneurial business are the level of financial literacy. Bhushan & Medury, (2013) research explains that financial literacy has been a complex research topic for the past few years with the introduction of many new financial products. Individuals who have financial literacy can use financial products and services appropriately so that individuals are not easily fooled by people who sell financial products that are not suitable for their financial conditions. The importance of financial literacy cannot be underestimated, because financially blind people may not be able to budget properly to meet expenses, cannot identify financial products or services that meet their needs, and ultimately tend to be exposed to exploitation and fraud practices (ASIC, 2003). Financial literacy helps for an entrepreneur in making financial decisions, in this case funding decisions and investment decisions.

Oseifuah, (2010), shows that the level of financial literacy for young entrepreneurs in Vhembe District, South Africa is above average. With financial literacy that is above average, it will have a positive impact on the management of business finances from young entrepreneurs who are blessed with asset management, debt management, and investment management. The third factor that tested its effect on the success of young entrepreneurial business was financial attitudes. According to Rajna, Sharifah Ezat, Al Junid, & Moshiri, (2011) financial attitudes can be interpreted as a state of mind, opinions and judgments of a person on personal finances that are applied to the attitude. When individuals are obsessed with money, then individuals will think about how to get money and how to use the money they have. That way will encourage individuals to have a perception of their finances in the future. So it is probable that the better the individual's attitude towards personal finances, the better the individual will do financial management. In this study, the success of young entrepreneurs is illustrated by the size of their business sales. Furthermore, financial knowledge, financial literacy, and financial attitude are tested for their impact on the success of young entrepreneurial businesses. The main problems often faced by an entrepreneur include weaknesses in the capital structure and limited ability to manage changes in the financial condition of the business.

2. Literature Review

Theory of Planned Behavior: This research is based on the theory of theory of planned behavior (TPB). According to this theory helps us to understand how we can change a person's behavior. Theory of Planned Behavior is a theory that predicts planned behavior someone in doing some behavior because it has the intention or purpose in doing it. A person's intention to behave is determined by three factors: attitude, subjective norms, and perceptions related to behavior control. Attitudes are interpreted as positive or negative responses to certain behaviors. Subjective norms are a person's perception of the thoughts of others who will support or not support them in doing something. While the perception of behavioral control refers to one's perception of the ease or difficulty in carrying out the desired behavior in this study, background factors, attitudes and perceptions related to behavioral control are used to explain how perceptions of income, gender, age, financial knowledge, and financial attitudes can influence one's financial management behavior or financial management behavior. Young entrepreneurs in Surabaya who are starting a business are also not free from similar problems. Therefore, in this study will measure the extent to which financial knowledge can become a knowledge base for a business? That is, businesses that are based on financial knowledge will be more successful in driving young entrepreneurial success compared to businesses that are not based on financial knowledge.

Financial Knowledge: Financial knowledge is the ability to understand the concept of financial management. Financial knowledge is clearly related to financial practices regarding cash flow management, credit management, savings and investment (Robb & Woodyard, 2011). Because individuals understand financial concepts better, decision making and financial behavior improve. Financial knowledge does not only include the ability to understand financial concepts, but also awareness of seeking important financial advice. Financial knowledge is a critical basic factor in financial decision making. To be able to have financial knowledge, the person needs to develop financial skills and use financial tools. In Dwiastanti (2015) financial knowledge can be broken down into financial skills and perceived knowledge by applying these skills and knowledge into financial behavior. There are several indicators used in this financial knowledge variable which refers to Kholilah & Iramani, (2013), including knowledge about interest and credit, knowledge related to the preparation of financial budgets, knowledge of investments in deposits, knowledge of stock investments, knowledge of how to invest in property, knowledge of investments in mutual funds, and knowledge about insurance.

Financial Literacy: Financial literacy according to Chen & Volpe, (1998) defines financial literacy as knowledge for managing finances in financial decision making. Based on this definition, it can be translated into 4 dimensions namely,
A) Personal financial management (personal finance) which is a planning process and financial management of individuals or families.

B) Forms of deposits that can be made in the form of savings (as income saved for safekeeping in the short term), time deposits (deposits that are withdrawn at a certain time period), deposit certificates (time deposits with evidence of deposits traded), and demand deposits (deposits in the bank that is used as a payment instrument).
C) Insurance is a form of risk control carried out by transferring / transferring risk from one party to another (insurance company). Another definition says insurance is a risk transfer from the first party to the other party.
D) Investment is a form of income allocation that is carried out today to obtain benefits or uses of profits in the future that exceed the investment capital issued at that time.

Chen & Volpe, (1998) categorize the level of personal financial literacy into three groups, namely low (<60%), moderate (60% <80%) and high (≥80%). This categorization is based on the percentage of respondents who correctly answered a number of questions used to measure personal financial literacy. According to Remund (2010) literacy is divided into two parts: (1) conceptual definition and (2) operational definition. Conceptual definitions explain abstract concepts in real terms. With the most basic definition, financial literacy is related to one's competence to manage money. The conceptual definition of financial literacy falls into five categories: (1) knowledge of financial concepts, (2) ability to communicate about financial concepts, (3) attitudes in managing personal finances, (4) expertise in making appropriate financial decisions and (5) confidence in planning for the future effectively for financial needs.

Operational definitions mean that financial literacy is changing these tangible provisions to criteria that can be measured. The operational definition clearly explains whether to take abstract concepts such as financial literacy and measure them, in a tangible way. Glaser & Walther (2012) combine empirical findings on the usefulness of financial literacy for investment decisions and literature from psychology, they argue that the behavior of people with high levels of financial literacy may depend on two styles of thinking with multiple-process theories: intuition and cognitive which is where it finds that a person's personal characteristics determine their financial behavior. Kennedy (2013) found that financial literacy, attitudes and subjective norms can influence intentions or planning in financial literacy. The planned theory of behavioral financial knowledge builds on high financial literacy.

Financial Attitude: Financial attitude can be interpreted as a state of mind, one's opinions and judgments about his personal finances that are applied to attitudes (Rajna et al., 2011). According to Furnham (1984) a person's financial attitudes can be seen from six concepts:

- Obsession, which refers to a person's mindset regarding money and his perception of the future in managing money well.
- Power, assume that someone uses money as a tool to control others and solve problems.
- Effort, it looks at someone who feels fit to have money from what he has done.
- Inadequacy, means that someone who always feels they don't have enough money
- Retention, show someone who tends not to want to spend money.
- Security is a person's view of money which assumes that better money is only kept alone without being saved in a bank or for investment.

Indicators of the variable financial attitude in this study include reliable money, the use of money for controlling others, the use of money to solve problems, saving money, the need for money, controlling financial matters (Herdjiono & Damanik, 2016).

3. Methodology

The research approach used is quantitative research. The population of this study is young entrepreneurs (aged 20-30 years) in the city of Surabaya. The sampling technique was done by quota sampling by dividing per Surabaya region so that the sample of this study amounted to 50 SMEs managed by young entrepreneurs. The analytical method used in this study is to use multiple linear regressions with validity test, reliability test, classic assumption test, and hypothesis testing.
SME Perf = α + β1FIN_KNOW + β2FIN_ATT + β3FIN_LIT +e

4. Results

At this stage, variables of financial knowledge, financial literacy, and financial attitude must be tested for validity and reliability first. The validity and reliability of test results summarized in Table1 below:

Table 1: Test Validity and Reliability

No.	Variable	Statement item	Corrected Item Total Correlation	Validity Results	Cronbach's Alpha	Reliability Results
1	Financial Knowledge	X1	0.516	V	0.879	Reliable
		X2	0.784	V		
		X3	0.603	V		
		X4	0.428	V		
		X5	0.733	V		
		X6	0.758	V		
		X7	0.750	V		
		X8	0.625	V		
2	Financial Attitude	X9	0.486	V	0.813	Reliable
		X10	0.590	V		
		X11	0.712	V		
		X12	0.534	V		
		X13	0.576	V		
		X14	0.491	V		
		X15	0.456	V		
		X16	0.521	V		
3	Financial Literacy	X17	0.219	Invalid	0.779	Reliable
		X18	0.467	V		
		X19	0.441	V		
		X20	0.414	V		
		X21	0.677	V		
		X22	0.163	Invalid		
		X23	0.441	V		
		X24	0.414	V		
		X25	0.677	V		
		X26	0.281	Invalid		

The measurement of the validity of an item is with correlate the item scores with tot al scores of items from variables if the correlation value is above 0 , then the item is said provide a sufficient level of validity, as far as the correlation value is below 0.3, the item is said to be less valid. In this study the level of validity of the 17th, 22nd, and 26th statement items was invalid because the value was <0.300.So the statement was removed from the study. The rest of the other statements are valid. Reliability testing of a construct or variable is said to be reliable, if the value is Cronbach Alpha >0,60 (Ghozali, 2006) from N table 1 shows the Cronbach value Alpha >0.60, so it can be concluded that the construct of the question is given reliably. The first classic assumption test is normality test. The kolmogorov-smirnov test was carried out with a significant level above 0.050. From the table below shows the kolmogorov-smirnov value of 0.931 or more than 0.050 so that it can be stated that the distribution of this research data is normal. The test of heterokedasticity using scatterplot test, from scatterplot images can be seen that the data points spread above and below the value 0, it can be concluded that there is no data homogeneity. Mutlicolinearity test is done by looking at the VIF value where all variables show a value of <10, it can be concluded that there is no correlation between independent variables.

Table 2: Multiple Regression Test

Variable	Coefficients	t-statistics	Probability	VIF
FIN_KNOW	0 .426	2,526	0 .015	1,545
FIN_ATT	0 .591	2,162	0 .036	1,923
FIN_LIT	0 .712	2,095	0 .042	2,470
f-statistics		21,116	0, 000 *	
Ad R^2 Square	0 , 552			

The coefficient of determination (R^2) basically measures how far the ability of the model to explain together the same to the dependent variable. The coefficient of determination in this study amounted to 0.552. The meaning of the independent variables included in this model, namely Financial Knowledge, Financial Attitude, and Financial Literacy is able to explain the dependent variable (entrepreneurial success) by 55.2 percent, while the rest (44.8 percent) is explained by variables outside the model. The F test is a model test, from the significance value seen at 0.00, far below 5 percent. In conclusion, F Test is significant there is simultaneously an influence between Financial Knowledge, Financial Literacy, and Financial Attitude towards entrepreneurial success. In the t test, the significance of the financial knowledge variable is <0.050, so Ho is rejected, meaning that there is an influence between financial knowledge and entrepreneurial success. The significance of the financial attitude variable is <0.050, so Ho is rejected, meaning that there is an influence between Financial Attitude and entrepreneurial success. Finally, the significance of the financial literacy variable is <0.050, so Ho is rejected, meaning that there is an influence between financial literacy and entrepreneurial success.

5. Conclusion

Based on the results of the partial calculation of the financial knowledge test obtained the value of the critical ratio of 2.526 with a significance value (p-value) of 0.015. This significance value is greater than the probability level of 0.050 the financial knowledge has a significant positive effect on entrepreneurial success. These results indicate that the higher the level of knowledge of an entrepreneur for finance will increase the sales of his business. Financial effect of knowledge on entrepreneurial success is based on the theory of planed behavior, which states that a person in doing some behavior because it has the intention or purpose in doing it was motivated by several factors, including the information that one of factors of financial knowledge. When someone has a lot of knowledge of matters related to finance, then this knowledge be used as one factor in the decision in this case is a financial decision. That way, the decision taken is the right decision so that it will affect the success of entrepreneurship. This result is consistent with research conducted by (Lusardi et al., 2010; Mandell & Klein, 2007; Van Rooij et al., 2007). Based on the results of the calculation of the test partially the financial attitude obtained critical values of 2.162 with a significance value (p-value) of 0.036. This significance value is greater than the probability level of 0.050 the Financial Attitude has a significant positive effect on Entrepreneurial Success.

These results indicate that the better the financial behavior of an entrepreneur will improve the quality of financial management so as to increase the sales of his business. Financial effect of attitude toward entrepreneurial success is based on the theory of planed behavior, which states that a person in doing some behavior because it has the intention or purpose in doing it was motivated by several factors, including personal factors, one of which is an attitude. Someone gives a positive or negative assessment of his attitude to be used as how someone must behave, when someone gives a positive value on his attitude, the better someone will behave, and vice versa. When a person gives a negative value on his attitude, the behavior of a person will be less good. If it is associated with the success of entrepreneurship, positive assessment of one's stance on making money a person will behave better the behavior, such as financial management wisely and take a good financial decision. Financial Attitude is a state of mind, opinion, and judgment of a person on his personal finances, which is then applied to attitudes. A person's thoughts, opinions, and judgments about his personal finances will determine what actions they will take. Aminatuzzahra' (2014) shows that the better a person's financial attitude or mentality, the better one's financial behavior. The better the individual's attitude towards his personal finances, the individual is better in financial management.

When individuals are obsessed with money, then individuals will think about how to get money and how to use the money they have. That way will encourage individuals to have a perception of their finances in the future. This is in line with the research of Herdjiono and Damanik (2016). Likewise with the results of Oseifuah (2010) and Amanah et al. (2016). Based on the results of partial test calculations of financial literacy obtained a critical ratio value of 2.096 with a significance value (p-value) of 0.042. This significance value is greater than the probability levels of 0.050 financial literacy has a significant positive effect on entrepreneurial success. These results indicate that the higher the financial literacy of an entrepreneur will increase the sales of his business. Individuals with good financial literacy have the ability to understand, obtain, and evaluate all information that is felt relevant in making decisions by understanding the financial risks that result and to improve their literacy in accordance with the Theory of Planed Behavior in terms of information obtained through the social environment. Family education, other people's experience in the use of finance, attending socialization, workshops, talk shows, seminars on financial literacy giving effect because by participating in a variety of positive events about financial literacy each individual will increase his sense of the importance of applying financial literacy in daily lifeday and business run.

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