

FINANCIAL LITERACY LEVEL OF YOUNG ENTREPRENEURS IN THE PRIVATE UNIVERSITY

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Moehamad Yunus Chalidana

Wirawan ED Radianto

Alexander Wahyudi Hengky

Tommy Christian Efrata

Universitas Ciputra, Indonesia

Abstract: This study aims to illustrate how high the level of financial literacy is amongst young entrepreneurs descriptively. Young entrepreneurs are students who have a business project during their studies at the university. The research methodology used in the study is the survey method by sending out questionnaires to respondents. There are in total of 183 respondents that were successfully collected. The data analysis methodology used is descriptive statistics evaluation. The study findings indicates that the financial literacy of young entrepreneurs is considered in the low category. Young entrepreneurs better understand savings and loans than understanding insurance.

Keywords: Financial literacy, personal finance, gender, residence

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Corresponding Author:
Wirawan ED Radianto, Uni-
versitas Ciputra, Indonesia,
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Financial literacy has a long term goal for all the citizens of a country, which is; to improve the literacy of someone who was less literate or not literate to become well literate. By improving the quality of financial literacy it will increase the number of users of financial products and services. The use of products and services will be optimum when the public understands the use and risks of products and services correctly. The correct use of financial products and services will naturally improve

the public's wellbeing. From the public's perspective, financial literacy can give a very big advantage. Examples of said advantage are the public's ability to choose and take advantage of the financial products and services that correspond to their needs, they can do better financial planning, the public can avoid unclear investments, and gain more understanding on the advantages and risks of financial products and services (OJK, 2016, 2016a, 2017).

Along with the passing of times, human needs become increasingly complex which led to the emergence of many variations of new financial products to help humans in managing personal financial resources. Therefore, every individual is required to have financial management knowledge and the ability to utilize the number of existing financial products effectively and efficiently for their wellbeings and to avoid financial problems. Knowledge and

ability in financial management are called financial literacy (Margaretha and Pambudhi, 2015).

Akmal and Saputra (2016) argue that financial problems are not only caused by low incomes, but can also be caused by errors in financial management such as misuse of credit, lack of financial planning, and no savings. To not make mistakes in financial management, every individual must be able to take financial decisions accurately and that can not happen without good financial literacy. Financial literacy can help improve the quality of financial services to contribute to a country's economic growth and development (Margaretha and Pambudhi, 2015). Therefore the lack of financial literacy can be a serious problem for all countries, including Indonesia.

This study is conducted on young entrepreneurs who are defined as current young university students who are also entrepreneurs. They are students who already have their own business and plan to become an entrepreneur instead of becoming a professional employee in the company. This study is conducted on young entrepreneurs for several reasons as follows. First, they are young people who pioneered their own business that of course will grow bigger and they might become great entrepreneurs in the future. Second, they have two different focuses simultaneously which is becoming entrepreneurs while at the same time doing their primary obligation which is to complete their studies. So they have to manage their finances for the business, university, and their daily lives. Therefore this research is different from other research that used students as samples because this research used a sample of students who already own businesses (young entrepreneurs), and therefore this is the differentiating factor of this study.

As explained above, it is therefore very important to be able to know how high the financial literacy of young entrepreneurs is. Young entrepreneurs need to have the financial literacy to contribute to the country's economy to improve the competitiveness of the country in today's economy field. If their financial literacy is high then it is expected that they will be able to access the financial resources well (increasing financial inclusion) thus

increasing economic growth. If their financial literacy is low then this research will provide the basis for government, university, or other parties to improve the financial literacy of young entrepreneurs.

This study aims to investigate how high the level of financial literacy in young entrepreneurs is. The data analysis process will use the process done by Chen and Volpe (1998). This is very important since as a young entrepreneur they have to literate for financial matters to success for their business. Using young entrepreneurs is a novelty of this study. The results of this study indicate that the level of financial literacy of young entrepreneurs from the population is still low. This research is very useful not only for Indonesia but also for other countries which still struggling to increase the number of entrepreneurs.

LITERATURE REVIEW

Previous Studies

Margaretha and Pambudhi (2015) examined students' financial literacy and the influence of gender, age, year of student entry, achievement index, residence, parental education, and partial parental income on students' financial literacy. The results of this study indicate that the level of financial literacy is in a low category. The study also shows that gender, age, GPA, and parents' income affect financial literacy while the year of student entry (class), residence, and parents' education do not affect financial literacy. Ulfatun et al. (2016) examined the level of financial literacy of the faculty of economics students and found that the level of financial literacy can be categorized as low. In contrast, Ergun (2017) examined the financial literacy of students in 8 European countries namely Estonia, Germany, Italy, Netherlands, Poland, Romania, Russian Federation, and Turkey. Ergun investigated further to find out the relationship between gender, study program, the field of study, residence, source of advice, parents' income, financial information sources, and financial literacy learning. The results of the study showed that of the 8 countries studied, all had moderate literacy levels, while Turkey was ranked the lowest, similar to findings in Özdemir et

al. (2015), while the highest in Poland. The similar findings in the study also show that gender, study program, study area, residence, source of advice, parents' income, financial information sources, and financial learning affect financial literacy. All of these studies used the process done by Chen and Volpe (1998), which is also used in this study.

Theoretical Background

Financial literacy is the ability to use knowledge and skills in managing one's financial resources effectively (Jump\$tart Coalition for Personal Financial Literacy, 2015). Meanwhile, according to Chen and Volpe (1998) financial literacy is individuals' knowledge to manage finances and in making financial decisions. According to them, there are four main aspects of financial literacy. First, knowledge of personal finance in general (general personal finance knowledge) which includes understanding some matters relating to basic knowledge of personal finance. Second, savings and borrowings include knowledge relating to savings and loans such as credit card use. Third, insurance covers basic knowledge of insurance and insurance products such as life insurance, motor vehicle insurance. Fourth, the investment includes knowledge of market interest rates, mutual funds, investment risk. In the process of calculating the financial literacy level, Chen and Volpe (1998) in Ergun (2017) divided private financial literacy into 3 categories, namely: low if it has a financial literacy rate of less than 60%, moderate if it has a financial literacy rate of 60% to 79%, and high if it has a financial literacy rate of more than 79%. This categorization is based on the percentage of correct answers to all the questions given to an individual to measure the level of personal financial literacy.

Females and males have different characteristics, in that females are more subtle than the male

because male tend to use their instinct while female use their feelings in making decisions (Ariani and Susanti, 2015). Ariani and Susanti (2015) found that gender is the characteristic that distinguishes between male and females behavior which of course is included in the behavior of managing finances.

A place of residence is a place where one lives for a while (Ariani and Susanti, 2015). According to Nababan and Sadalia (2013) and Ariani and Susanti (2015), students' residence is a place where students stay during their period of study. For the study, students must have a place to live, either residing with parents or living alone by renting an available space.

METHOD

This study is descriptive. This method is similar to previous descriptive studies conducted on financial literacy levels, such as studies by Margaretha and Pambudhi (2015), Ulfatun et al. (2016), Özdemir et al. (2015), and Ergun (2017).

This study uses a population of university students who are active in university and owns a business. This study used purposive sampling by spreading the questionnaire containing multiple-choice questions about personal financial literacy adopted from research done by Ulfatun et al. (2016) and Ergun (2017).

The descriptive analysis of this study to describe the level of financial literacy of the respondents the method used by Chen and Volpe (1998). Data were obtained from respondents' answers to multiple-choice questions adapted from Chen and Volpe (1998) and Ulfatun et al. (2016). Questions answered correctly will be given a score of 1, while questions answered incorrectly will be given a score of 0. The level of financial literacy of each respondent can be known by:

$$Financial\ Literacy\ Level = \frac{Respondents'\ total\ score}{Maximum\ score\ that\ can\ be\ obtained} \times 100\%$$

After obtaining the level of financial literacy of all respondents, we can know the minimum, maximum, and mean value of the students' financial literacy level as a whole. The minimum value is the lowest value of the financial literacy level of all respondents, the maximum value is the highest level of financial literacy of all respondents, and the mean is the average level of financial literacy of all the respondents. The mean value is then used to infer the respondents' financial literacy level category through the following criteria: (Chen and Volpe, 1998)

1. Low if the financial literacy rate is less than 60%.
2. Moderate if the financial literacy rate is between 60% to 79%.
3. High if the financial literacy rate is higher than 79%.

This study also analyzes the percentage of a correct response on each question so that the respondents' most understood and least understood aspect of financial literacy can be known.

RESULTS

The questionnaire used in this study consists of 5 parts. The first part is the respondent's biography, the second part contains questions about general knowledge on personal finance, the third part contains questions about savings and loans, the fourth part contains insurance questions, and the fifth part contains questions about investments. Questionnaires are distributed online using google forms and offline using 2 sheets of A4 paper for each questionnaire. The total questionnaires distributed amounted to 473 and the total that can be used for the study is 183 questionnaires (with 38% return rate).

The researcher conducted validity and reliability testing. After the question passed the validity test next reliability test is conducted and the results are reliable because it has Cronbach Alpha greater than 0.6, therefore, it can be concluded that statement of the questionnaire used in this study reliable.

Characteristics of 183 respondents participated in the survey of this study. 43% of respondents or 78 out of 183 live with parents, while 57% or 105

Table 1 Reliability Test

Variable	Cronbach's Alpha	Remarks
Financial Literacy Level	0,604	Reliable

out of 183 people live alone. For the gender characteristic, 44% or 80 of 183 respondents are female, 56% or 103 of 183 are males.

Table 2 Descriptive Statistic

Descriptive Statistic	Financial Literacy Level	Category
Minimum	10%	Low
Maximum	80%	Moderate
Mean	42%	Low

The respondents' financial literacy level was obtained by dividing the number of respondents' correct answers to the total number of questions about personal financial literacy adopted from the research done by Chen and Volpe (1998). A minimum score of 10% is the lowest among all young entrepreneurs who participated in the survey, which means that from 20 questions given there are young entrepreneurs who can only answer as many as 2 questions correctly. The maximum value of 80% is the highest among all young entrepreneurs who participated in the survey, meaning that there are young entrepreneurs who can answer 16 questions correctly from 20 questions given. The mean value indicates the average overall entrepreneur financial literacy rate is 42%, which is still in the low category (<60%)

Tabel 3 Young Entrepreneurs' Financial Literacy Level

Category	Respondents	Percentage
Low	153	84%
Moderate	30	16%
High	0	0%
Total	183	100%

Table 3 shows the number of respondents in each category of financial literacy. 84% or 153 of the 183 respondents had a low level of financial literacy and can only answer less than 60% of the questions correctly. While 16% or 30 of the 183 re-

spondents can answer around 60% -80% of the questions given correctly and are categorized as moderate. No respondents were able to more than 80% of the questions given correctly so no respondent is in the high category.

Table 4 Correct Responses in the General Financial Knowledge Aspect

Aspect	Question	Financial Literacy Level		
		Low <60%	Moderate 60-80%	High >80%
General knowledge of personal finance	Benefits of personal financial literacy	51.9%		
	Knowledge of personal finance planning		69.4%	
	Asset Liquidity	29%		
	Knowledge of net worth	34.4%		
	Knowledge of spending and income	39.3%		
	Fees relating to apartment rental		65.6%	
	Knowledge of legal requirements when renting an apartment	32.8%		
	Knowledge of reconciliation of checking accounts	36.6%		
	Average	44.9%		

Table 4 shows the percentage of respondents who answered the question on the aspect of general knowledge of personal finances correctly. In this aspect, two questions are successfully answered correctly and are at a moderate level which is about personal financial planning and the Fees relating to apartment rental. Other than these two questions,

other questions in this aspect can only be answered correctly by less than 60% of respondents which are questions about asset liquidity which has the lowest correct response of 29%. The average understanding of respondents in this aspect is in the low category with 44.9%.

Table 5 Correct Responses in Savings and Loans Aspect

Aspect	Question	Financial Literacy Level		
		Low <60%	Moderate 60-80%	High >80%
Savings and Loans	Term deposit characteristics	53.6%		
	Knowledge on overdraft	31.7%		
	Improving credit rating		69.4%	
	Consequences of cosigning others' loans	45.4%		
	Average	50%		

the percentage of respondents who answered questions on the aspects of savings and loans correctly can be seen in table 5. There is one question answered correctly by 69.4% of the respondents

which is the question on improving credit rating. The average level of respondents' understanding of the aspect of savings and loans is 50% which is relatively low.

Table 6 Correct Responses in Insurance Aspect

Aspect	Question	Financial Literacy Level		
		Low <60%	Moderate 60-80%	High >80%
Insurance	Vehicle insurance premium determinants	36.6%		
	Knowledge of use of insurance	32.8%		
	Knowledge of residential insurance risks	49.2%		
	Knowledge of term insurance	16.9%		
	Average	33.9%		

Table 6 shows the percentage of respondents who answered questions on the insurance aspect correctly. The question on risks covered by residential insurance is a question in this aspect with

the most correct answers from respondents with 49.2%. The average understanding of respondents about insurance amounted to 33.9% and is categorized as low.

Tabel 7 Correct Responses in Investment Aspect

Aspect	Question	Financial Literacy Level		
		Low <60%	Moderate 60-80%	High >80%
Investment	Effect of interest rate on the country's obligation pricing	32.2%		
	the dollar-cost-averaging approach in investing	50.3%		
	Knowledge of investment risks	31.7%		
	Effect of change in foreign exchange to other foreign exchange	34.4%		
	Average	37.2%		

Respondents' understanding of the investment aspect is shown in table 7. The question of the dollar-cost-averaging approach in investing has the highest score of 50.3%. The average respondents who answer the questions in the investment aspect correctly are 37.2% and are considered in the low category.

DISCUSSION

The level of financial literacy of young entrepreneurs is still in the low category of 42%. As many as 84% of students have a low level of financial literacy and only 16% have sufficient financial literacy level or are in the moderate category, and none of the respondents is in the high category which

is having financial literacy of more than 80%. A survey conducted by the Indonesian Financial Services Authority in 2015 stated that only about 28% of students in Indonesia were financially literate (Jefriando, 2015). While the latest survey conducted by the Financial Services Authority in 2017 found that only 29.7% of Indonesians were financially literate (Aziza, 2017).

The aspect of financial literacy most mastered by young entrepreneurs is the aspect of savings and loans with an average of 50% correct answers. Young entrepreneurs have already understood about saving and loans because they do it every day. As young entrepreneurs, they are always dealing with how to get capital for their business, and one of the

most they do is to borrow money. They usually borrow money from parents, relatives, friends, or banks. How they manage money is still conservative, that is when they make a profit, they will keep it in the bank. They familiar with the banking industry because it seems to be an industry that is close to their daily business. Therefore they have more understanding of the concept of saving and borrowing than the concept of insurance.

The aspect of financial literacy that most of the respondents failed in is the insurance aspect as the data for correct answers in that aspect is only 33.9%. None of the questions can be answered correctly by more than 80% of young entrepreneurs. Up to now, the insurance industry is still developing in Indonesia compared to the banking industry. Therefore, many young entrepreneurs, the students, still do not understand the concept of insurance. Many students and college graduates still do not understand the benefits of insurance (Kompas, 2008). Even if they understand insurance, most of them still understand only limited life insurance. They still do not understand that insurance is an important way to minimize business risks. They still do not understand the benefits of insurance. Hendrisman (Chairperson of the Indonesian Insurance Council) stated that currently, Indonesians do not consider insurance to be a basic need (Indris, 2017). This is because awareness of insurance for Indonesian people is still low. This is because two reasons namely many Indonesians do not know the benefits of insurance and there are still many insurance companies that can not reach the community. Insurance socialization in Indonesia is still lower compared to other ASEAN countries. This is certainly very unfortunate because the insurance industry is one of the important pillars of the economy in Indonesia.

The findings in this study are not much different from other studies (Margaretha and Pambudhi, 2015; Mendari and Kewal, 2013; Ulfatun et al., 2016; Herawati, 2017). The low level of financial literacy, in this case, is due to the less critical treatment that parents did in meeting their children's financial needs during the duration of their study, even when they already own a business. That is, respondents have

easy access to financial resources that are more than enough so that they do not need to worry about financial problems because their study needs are fulfilled not only by their parents but also from the business they run. Very few respondents are aware of the details of their financial records. Most respondents feel that they do not need to have good financial management skills because of their financial security.

CONCLUSIONS AND RECOMMENDATIONS

According to the analysis and discussion results obtained in the previous sections, we can conclude based on this study that the financial literacy level for a young entrepreneur is considered in the low category. Young entrepreneurs better understand savings and loans than understanding insurance. For future research, we expect that more demography variables will be added so that the study on financial literacy will have more comprehensive variables, and other factors that affect the financial literacy of young entrepreneurs can be discovered.

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