

ANALYSIS OF FINANCIAL LITERACY LEVELS AND ITS INFLUENCE ON FINANCIAL DECISIONS OF THE COMMUNITY OF KWALA SERAPUH VILLAGE, LANGKAT DISTRICT

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Abstract:

The aim of this research is to examine and analyze the level of financial literacy and its impact on the financial decisions of the people of Kwala Serapuh Village, Langkat Regency. The sample in this study consisted of the people of Kwala Serapuh Village with a total of 36 respondents. Data were analyzed using SPSS software. The research results show that the highest significance in the financial literacy variable of the Kwala Serapuh Village community is the ability to have sufficient savings to overcome unexpected needs. The t-statistic results show that financial literacy influences the financial decisions of the people of Kwala Serapuh Village. The remainder can be attributed to other factors not included in the scope of this research. The implication of this research is the importance of increasing financial literacy among the people of Kwala Serapuh Village, Langkat Regency, so that they can manage their finances more wisely and avoid financial difficulties in the future.

INTRODUCTION

Based on BPS Langkat Regency Economic Growth data, the economy of Langkat Regency as measured by GRDP at current prices in 2022 reached IDR 51,412.76 billion, while based on constant prices in 2010 it reached IDR 31,665.48 billion. The economy of Langkat Regency in 2022 compared to the previous year will increase by 4.69 percent. This shows that the COVID19 pandemic has ended and all economic activities are starting to return to normal, so it has a big impact on economic growth in Langkat Regency. This economic improvement is also marked by the trend in the percentage and number of poor people in Langkat Regency shown in Figure 1. In the last ten years, the percentage of poor people in 2022 is the lowest compared to previous years.



Source: *Langkatkab.bps.go.id*

Figure 1. Number and Percentage of Poor Population, 2011–2021

According to (Widyawati, 2012), financial decisions taken by a person include how much money should be consumed each period, whether there is a surplus and how the excess is invested and how to fund investment and consumption. (Chinen & Endo, 2012), says that someone who has the ability to make the right decisions about finances will not have financial problems in the future and will show healthy financial behavior and be able to prioritize needs rather than wants.

According to (Hamdani, 2018) that increasing people's income is not necessarily followed by good financial management patterns. So that finances can be processed carefully and efficiently, it is important for individuals to understand financial literacy (Welly & Juwita, 2013). Every decision regarding the funds used must be carefully considered so that they can result from the activities carried out. In general, Indonesian people allocate the money or funds they have into several forms of consumption, savings and investment. Among the several forms of allocation, the one that has the most benefits for the future of the funds used is investment. Healthy financial behavior is demonstrated by good financial planning, management and control activities. Indicators of good financial behavior can be seen from the way a person manages money going in and out, credit management, savings and investments (Hilgert & Hogarth, 2003). Wise and appropriate financial decisions can have a significant impact on the economic welfare of families, especially the Kwala Serapuh village community.

Kwala Serapuh Village, located in Langkat Regency, is one of the rural areas in Indonesia that may face challenges in terms of financial literacy. Financial literacy is a must for every individual to avoid financial problems. The Financial Services Authority defines financial literacy as a series of processes or activities to increase the knowledge, skills and confidence of consumers and the wider community so that they are able to manage their personal finances better. Financial difficulties are not only caused by low levels of income, but also caused by errors in financial management, for this reason, adequate financial literacy is needed. With proper financial management which is of course supported by good financial literacy, the standard of living is expected to increase, this applies to every income, because no matter how high a person's income level is, without proper management, financial attainment will be difficult to achieve (Awais et al., 2016).

Financial problems often occur because individuals lack financial knowledge and poor financial management habits (Hamdani, 2018). The low level of financial literacy is proven based on infographic data from the 2022 National Survey of Financial Literacy and Inclusion, which shows that the rural financial literacy index is 48.43%. The importance of financial literacy for rural communities is increasingly evident along with economic growth and changes in increasingly complex lifestyles in these areas. In line with what was expressed by (Chen & Volpe, 1998), that low financial literacy occurs due to a lack of personal finance education. Village communities have not been able to manage family finances well, such as managing family expenses effectively and managing family income sources as well as possible, resulting in waste that has an impact on their welfare. The people of Kwala Serapuh village also do not understand good financial concepts so they are trapped in excessive debt, such as loans with high interest rates or unmanageable consumer debt. Without sufficient financial literacy, the Kwala Serapuh village community may be less prepared to face financial emergencies or overcome the impact of unexpected events such as illness, accidents or natural disasters. Low financial literacy can also cause financial stress and tension in everyday life, which can have a negative impact on their mental and physical well-being.

The aim of this research is to examine and analyze the level of financial literacy and its influence on the financial decisions of the Kwala Serapuh village community. It is hoped that this research can provide a deeper understanding of the challenges and

opportunities of financial literacy in rural environments, helping related parties, such as local governments and financial institutions, in designing more effective financial literacy programs for rural communities. By increasing financial literacy, it is hoped that the people of Kwala Serapuh Village can make better financial decisions, improve welfare, and contribute to regional economic development.

LITERATURE REVIEW

Behavioral Theory (Behaviorism Theory)

Behavioral Finance Theory is a theory about the influence of psychology on the behavior of financial actors which then influences the use of financial instruments. According to (Pradikasari & Isbanah, 2018), financial behavior explains how much a model of financial phenomena can be understood by someone which will influence investment decisions in accordance with risk and return considerations. Behavioral finance involves emotional factors, traits, preferences, and various things that exist in humans as intellectual and social creatures which will underlie decisions to take action in the financial sector (Hidayat & Sukamdani, 2019).

Financial Literacy

Financial literacy is important knowledge and skills in finance so that everyone has an understanding and can avoid financial problems. According to (Coskuner, 2016), financial literacy is about the ability to understand money and finance and being able to confidently apply that knowledge to make effective financial decisions. According to (Financial Services Authority, 2017) Financial Literacy is knowledge, skills and beliefs, which influence attitudes and behavior to improve the quality of decision making and financial management to achieve financial prosperity. According to (Lopus, et al., 2019), everyone needs to achieve financial independence, knowledge and implementation in managing their personal finances.

(Remund, 2010) argues that there are four things that are most common in financial literacy. First, budgeting. Individuals with good financial literacy will keep records and budget their finances according to the budget plan in financial management. Second, savings. Savings are savings that individuals have and can be used for the future. Third, loans. A loan is a debt that will be reimbursed at some time in the future and on the agreed day. Individuals with good financial literacy will have good knowledge about loans.

Fourth, investment. Investment is defined as long-term capital investment with the hope of making a profit in the future.

Financial Decisions

According to (Widyawati, 2012), financial decisions taken by a person include how much money should be consumed each period, whether there is a surplus and how the excess is invested and how to fund investment and consumption. (Chinen & Endo, 2012), says that someone who has the ability to make the right decisions about finances will not have financial problems in the future and will show healthy financial behavior and be able to prioritize needs rather than wants.

RESEARCH METHODS

Research Approach

A research approach is a way of thinking adopted by researchers about how research designs are created and how research will be carried out. This research approach is associative research. The associative research method is research that is intended to reveal problems that are causal in nature between two or more variables.

Population and Sample

A population is a group of individuals with the same characteristics who live in the same place and have the ability to reproduce among themselves. (Sugiyono, 2019) explains that population is a generalized area consisting of objects or subjects that have certain quantities and characteristics that are determined by researchers to be studied and then draw conclusions. The population in this study was the entire community in Kwala Serapuh Village.

The sample is part of the number and characteristics of the population. According to (Sugiyono, 2013) The sample is part of the number and characteristics of the population. The sampling method in this research uses a convenience sampling technique, which means that the sampling units drawn are easy to contact, not troublesome, easy to measure, and cooperative (Sugiyono, 2016). The convenience sampling method is used because researchers have the freedom to select samples quickly from population elements whose data are easily obtained by researchers. The sample chosen in this research was the

community who were present during the socialization of activities at the Kwala Serapuh village hall office, totaling 36 respondents.

Data analysis technique

Descriptive statistics

Descriptive analysis is data analysis by describing or illustrating the data that has been collected as it is without the intention of making general conclusions or generalizations. Descriptive statistics are statistics used to analyze data by describing or illustrating the data that has been collected without intending to make general conclusions or generalizations (Sugiyono, 2019).

Classic assumption test

a. Data Normality Test

The Normality Test is used to test whether the regression model has a normal distribution or not. (Ghozali, 2018) states that the normality test is a test with the aim of testing whether in the regression model, the confounding or residual variables have a normal distribution. The methods used to carry out the normality test are the histogram approach, graphic approach, and Kolmogorov-Smirnov approach, namely if the significant Kolmogorov-Smirnov value is <0.05 then the data is normally distributed.

Simple Linear Regression

Regression analysis is an analysis that explains the consequences and magnitude of the consequences caused by one or more independent variables on one dependent variable. This research uses multiple linear analysis because the number of independent variables consists of more than one. According to (Sugiyono, 2019), simple regression analysis is based on functional or causal relationships.

$$Y = a + bX$$

Where :

Y = Dependent/dependent variable, in this case is Financial Behavior

X = Independent variable, in this case is Financial Literacy

a = Constant/Unit number which is the value of Y if $X=0$

b = Regression coefficient (value of increase or decrease).

Fit Test (Goodness of Fit Test)

a. Partial Test (t Test)

The t statistical test was carried out to determine the effect of each independent variable on the dependent variable (Ghozali, 2018). This test is carried out with the criteria that if the significance value is <0.05 then the hypothesis is accepted, and if the significance value is >0.05 then the hypothesis is rejected.

b. Determination Test (R2 Test)

The coefficient of determination is a value that shows the magnitude of the influence contribution given by the independent variable to the dependent variable. Correlation or relationship between variables can be seen from the R square number or coefficient of determination. A small adjusted R² value means that the ability of the independent variables to explain variations in the dependent variable is very limited. A value close to one indicates that the independent variables provide almost everything (Ghozali, 2018).

RESULTS AND DISCUSSION

Descriptive statistics

Descriptive statistics are used to determine the results of the variables that will be the sample. The results of descriptive statistical calculations that have been processed using SPSS are as follows:

Table 1. Descriptive Statistical Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Financial_Literacy	36	21.43	22.93	22.2694	.36370
Financial_Behavior	36	19.55	21.86	20.4414	.84070
Valid N (listwise)	36				

Based on the results or descriptive statistical output above, it can be seen that the Financial Literacy (X) outcome variable in the sample ranges from 21.43 to 22.93 with an average of 22.2694 with a standard deviation of the Financial Literacy (X) variable of 36370. Meanwhile, the Financial_Behavior (Y) variable in the sample ranged from 19.55

to 21.86 with an average value of 20.4608 and a standard deviation of the Financial_Behavior (Y) variable of 84070.

Classic assumption test

a. Data Normality Test

The normality test is carried out to test whether the distribution of data follows or approaches a normal distribution. In this research, the method used to test the data normality test uses the One Sample Kolmogorov-Smirnov method with a significance level of 0.05, meaning that the data is considered normal if the residual value is > 0.05 and vice versa, the data is considered abnormal (abnormal) if the residual value < 0.05 .

Table 2. Kolmogorov-Smirnov Test Results

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residuals
N		36
Normal Parameters, b	Mean	.0000000
	Std. Deviation	.82360878
Most Extreme Differences	Absolute	,167
	Positive	,167
	Negative	-.137
Kolmogorov-Smirnov Z		1,003
Asymp. Sig. (2-tailed)		,267

- a. Test distribution is Normal.
- b. Calculated from data.

Based on the results of the normality test with Kolmogorov-Smirnov, the Asymp.sig (2-tailed) test value shown is 0.267 ($p = 0.267$). Because $p = 0.267 > \alpha = 0.05$, the Kolmogorov-Smirnov results show that the data in this study is normally distributed and the regression model is suitable for use in this study. The results of this test strengthen the results of the normality test with a distribution graph where both show the data results are normally distributed.

Multiple Linear Regression

Multiple linear regression analysis was carried out to determine the influence of the independent variables, namely understanding and literacy, on the effectiveness of farming.

Table 3. Simple Linear Regression Analysis Test Results

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	38,591	5,630		6,854	,879		
Financial_Literacy	,616	.138	,615	4,482	,000	1,000	1,000

a. Dependent Variable: Financial_Behavior

Based on the table above, the results of simple linear regression can be seen as follows:

$$Y = 0.616$$

This equation shows that the coefficient value of Financial Literacy (X) increases by one unit, so Financial Behavior (Y) increases by 0.616 units.

Hypothesis Test (Fitness Test)

a. Partial Significant Test (t Test)

A partial test (t test) is carried out to find out whether the independent variable is partial to the dependent variable.

Table 4. Hypothesis Test (t Test)

Coefficients ^a							
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	38,591	5,630		6,854	,879		
Financial_Literacy	,616	.138	,615	4,482	,000	1,000	1,000

a. Dependent Variable: Financial_Behavior

The table above shows that the t-count value is 4.482, while the t-table value obtained from the t distribution table is found at a significance of 5%: $2 = 2.5\%$ (two-way test) degrees of freedom (df) $nk-1$ or $36-1-1 = 34$ then we get a ttable of 2.03224. Therefore, the value of $t_{count} > t_{table} = 4.482 > 2.03224$ with a significant value of 0.000, because the significance value is smaller than 0.05, it can be concluded that H_0 is rejected and H_a is

accepted. This means that Financial Literacy has a significant positive effect on Financial Behavior. The following is a two-way hypothesis test curve (t):

Coefficient of Determination

The coefficient of determination (Adjusted R Square) measures how far the model's ability to explain literacy variables on financial behavior. The coefficient of determination value is between 0 and 1. An Adjusted R Square value that is close to one means that the research independent variable provides almost all the information needed to predict variations in the farming effectiveness variable. In this study, Adjusted R Square was used, because there was more than one independent variable used in this study. The results of the coefficient of determination can be seen in the table, as follows:

Table 4. 5 Determination Coefficient Tests (R2)
Model Summary b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.615a	.378	.360	7.77151283E8	1,994

a. Predictors: (Constant), Behavior_Finance

b. Dependent Variable: Financial_Literacy

From the table above, it is known that the coefficient of determination (R Square) is 0.378. This means that Financial Literacy can explain its influence on Financial Behavior by 37.8% and the remaining 62.2% is influenced by other variables, for example long-term and short-term foreign capital, which are not discussed in this research.

CONCLUSION

The results of analysis using simple linear regression show that Financial Literacy has a positive and significant effect on Financial Behavior. The results of simple linear regression testing obtained a coefficient of determination of 0.378 and a t_{value} of 4.482 > t_{table} 2.032 with a significance value of t of 0.000 or a probability below $\alpha = 5\%$. It can be concluded that there is a positive and significant influence of Financial Literacy on the Financial Behavior of the Community of Kwala Serapuh Village, Langkat Regency.

Financial literacy includes an understanding of basic financial concepts such as savings, investments, loans, and financial planning. When the level of financial literacy is low in rural communities, it often has a negative impact on their financial decisions. People who don't understand money management tend to make unwise decisions, such as

not setting aside funds for the future, easily getting entangled in high-interest debt, or ignoring investment opportunities that can improve their welfare.

On the other hand, when the level of financial literacy increases, rural communities tend to be better able to make better financial decisions. They can plan their future better, identify profitable investment opportunities, and manage financial risks more effectively. A high level of financial literacy can also reduce rural communities' vulnerability to detrimental financial practices, such as financial fraud or uncontrolled debt.

Thus, efforts to increase financial literacy in rural communities can have a positive impact in changing their financial behavior, helping them achieve financial stability, and improving overall well-being. Financial education and access to good financial information can be an effective tool in empowering village communities to make smarter and more sustainable financial decisions.

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