

Understanding Locus of Control on Emerging Adults Financial Behavior

A Case Study in the Management Department, Faculty of Economics, State University of Medan

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ABSTRACT

This study seeks to test empirically, conceptually, and theory in terms of the Locus of control that builds financial decision behavior, where financial decision behavior will be proxied through variables economic action with the object of Department of Management Students as emerging adults. Through Purposive Sampling Technique with the target sample criteria were students of the Management Department, Faculty of Economics, State University of Medan who took the Capital Market and Financial Management Subject in the Odd Academic Year 2019/2020, 241 students met the requirements. The data analysis technique used in analyzing this study's hypothesis is Partial Least Squares - Structural Equation Modelling. Based on the results obtained, the Locus of Control Emerging Adults students of Management Department, Faculty of Economics, State University of Medan significantly affects their financial behavior.

Keywords: *Locus of Control, Financial Behavior, and Emerging Adults*

1. INTRODUCTION

Most of the emerging adults are faced with threats to their finances and well-being, ranging from the ease of accessing the online shop and loan systems that are readily available to use [1]. In this case, it is very implausible that emerging adults in Indonesia have credit cards issued by banks due to Indonesia Financial Regulator (OJK-RI). However, with online credit in society, such as Kredivo, Intallments, Akulaku, Home Credit, Cash Cloud, Your Credit, etc. Just with Smart Phone and Identity Number (e-KTP) [2]; emerging adults in Indonesia can take advantage of credit facilities without considering the strict OJK-RI regulations.

Locus control is a person's belief in who the controller is [3]. In a study conducted by Jorgensen et al.,[4] that Locus of control is a variable of financial ability that captures the degree of awareness that an individual will receive the consequences of his behavior on factors beyond his control (e.g., luck, destiny, higher power). There are two definitions in defining Locus, namely Genetic Locus, gene position (or another significant sequence) on a chromosome, and the second definition is Mathematical Locus, a set of points that fulfil a particular set of conditions and form a curve [5].

Cobb-Clark et al. [6] define Locus of Control as a psychological concept that captures individual beliefs about the causal relationship between one's behavior and life events. In this case, Jorgensen et al. [4] explained that Locus of Control consists of two indicators, namely, "internal" Locus of control (individuals who receive a result from the consequences of their behavior) and "external" Locus of Control. Management (individuals who receive a result outside of their behavior).

Forming an independent financial capacity in emerging adults is not well known – especially in Indonesia. Thus, this study seeks to test empirically, conceptually, and theory in terms of the Locus of Control that builds financial decision behavior, where financial decision behavior will be proxied through variables economic action with the object of Department of Management Students as emerging adults.

2. LITERATURE REVIEW

2.1. Financial Behavior

Financial behavior is a sub-sector subject of economic behavior and psychology that explains stock market anomalies empirical phenomenon, namely the

rise and the fall of stock prices [7]. Furthermore, Tezel [8] demonstrated that financial behavior has a remarkably close relationship with cash management, preventive measures, and budgeting opportunities in both individuals, communities, and countries. Then, IGI [9] defines financial behavior as a real financial attitude in making decisions, secondly is a human behavior that is in line with financial management, and the third definition is the ability to understand the impact of financial decisions taken and manage finances related to cash management, prevention and planned budgeting planning. In this case, the results of a study conducted by Jorgensen et.al.[4] of the 321 emerging adults in mind that there is a negative relationship between the financial behavior and locus of control. Furthermor, Jorgensen et.al. [4] stated that the dominant indicators of financial behavior in emerging adults consist of cash management, debt management, capital accumulation and general management.

2.2. Locus of Control

Locus of Control could be seen through two indicators, namely. “internal” locus of control (individuals who receive a result of the consequences of their behavior) and “external” locus of control (individuals who received a consequence outside of the action he has) [4]. According to [3], internal locus of control means the belief of an individual that is himself who controls fate. In this case, if he wants to change his destiny, he must try. Meanwhile, external locus of control also according to [3] means an individual’s belief that his fate is controlled by something beyond his control. If there is something wrong, then it is someone else’s fault, or he is just unlucky.

3. HYPOTHESIS

This study focuses on two constructs that dominate the financial development process of individuals who are classified as early adulthood ranging from 18 to 30 years. The first is financial behavior in emerging adults consisting of four indicators: cash management, debt management, capital accumulation and general management. Where financial behavior is influenced by the Locus of Control, which consists of General Locus of Control and Financial Locus of Control. Then the research hypothesis is as follows:

- H1. Financial Locus of Control and General Locus of Control can explain the construct of Locus of Control in Emerging Adults Students of the Management Department, Faculty of Economics, State University of Medan.
- H2. General Management, Cash Management, Credit Management, Capital Accumulation can explain the Financial Behavior construct for Emerging Adults Students of the Management Department, Faculty of Economics, State University of Medan.
- H3. Locus of Control significantly affects Financial Behavior in Emerging Adults Students of the

Management Department, Faculty of Economics, State University of Medan.

4. METHODOLOGY

This research is exploratory to develop theories or build recursive theories and constructs. Furthermore, model specifications and model parameters are based on Components two loading, path coefficients, and component weight. Again, the structural model is designed recursively to evaluate the model and assumptions that do not require that the data be normally distributed. Direct parameter estimation is carried out without the requirements of the criteria goodness of fit. Then, significance testing is via the procedure bootstrap or jack-knife.

4.1. Research Location

Faculty of Economics, Management Study Program, State University of Medan is a research location during the 2019/2020 academic year.

4.2. Population and Research Sample

All students of the Management Study Program, Faculty of Economics, State University of Medan are the target population. Through purposive sampling technique with the target sample criteria were students of the Management Department, Faculty of Economics, State University of Medan who took the Capital Market and Financial Management Subject in the Odd Academic Year 2019/2020, 241 students met the requirements.

4.3. Measures

4.3.1. Financial Behavior

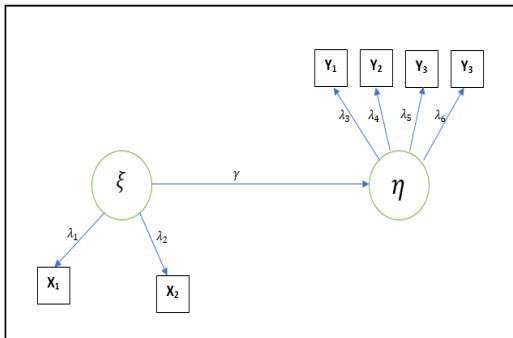
Financial behavior calculated using four indicators: cash management, credit management, capital accumulation, and general management according to the study design conducted by Jorgensen et.al [4]. The statements on these four indicators use a survey model developed by Porter [10]. Cash management consists of seven statement items with four Likert scales; credit management consists of seven statement items with four Likert scales; capital accumulation consists of four statement items with four Likert scales. The last is with four Likert, general management consisting of ten statement items scales. Four indicators on the latent variable will start with a value of one with the meaning “Never” to four with the sense of “Always”. Finally, there are two question items on general management with four multiple choices: values 1 to 4.

4.3.2. Locus of Control

In measuring locus of control, two indicators are used, namely financial locus of control (10 statements) and general locus of control (10 statements) [4]. In this case, the two indicators will use the instrument [11,12] by modifying it according to the design built by [4]. Where both indicators use a Likert scale from one which state “Strongly Disagree” and four which says “Strongly Agree”, where four statement items are taken from [11] and sixteen statement items from [12].

4.4. Mathematical Model

From the conceptual model, the inner and outer construct equations can be formed as follows:



ξ = Locus of Control Latent Variable (Exogenous), Y1 = Cash Management, Y2 = Credit Management, Y3 = Capital Accumulation, Y4 = General Management, η = Financial Behavior Latent Variable (Endogenous), X1 = Financial Locus of Control, X2 = General Locus of Control

Figure 1. Conceptual Model of Control Locus on Financial Behavior Emerging Adults

Inner Model Equation

$$\eta = \gamma\gamma$$

Outer Model Equation

$$X_1 = \lambda_1\gamma; X_2 = \lambda_2\gamma$$

$$Y = \lambda_3\eta; Y = \lambda_4\eta; Y = \lambda_5\eta; Y = \lambda_6\eta$$

5. ANALYSIS AND RESULT

The data analysis technique used in analyzing this study’s hypothesis is Partial least Squares – Structural Equation Modelling because it is perfect in terms of avoiding improper solutions and indeterminacy factors. PLS will test the outer Model through the Confirmatory Factor Analysis (CFA). Furthermore, Multiple Regression Analysis (MRA) is used to test the inner Model (Structural Model). Therefore, this study will use the SmartPLS 3.0 application to process identified constructs and structures.

5.1. Reliability and Validity Analysis

Before testing the proposed theoretical framework, it is recommended that you check for reliability and validity [13, p.117]. In this case, the results of the validity can be seen based on the calculation results of SmartPLS 3.0 as follows:

Table 1. Validity and Reliability Construct Result

	Composite Reliability	Average Variance Extracted (AVE)
Financial Behavior	0.727	0.575
Locus of Control	0.744	0.599

Based on the PLS Algorithm results with mode A, it is known that Y2 (Credit Management) and Y4 (General Management) do not meet the Loading Factor for Explanatory Research. So, it is necessary to modify the construct with the following results:

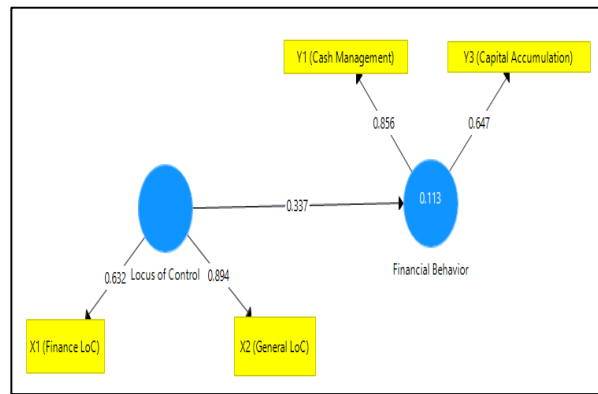


Figure 2. PLS Algorithm Result (1)

This construct can be categorized as a construct that has met the reliability and validity of the construct. This is indicated by the value of Average Variance Extract (AVE) which is used for construct validity assessments, namely 0.575 for the financial behavior construct and 0.599 for the Locus of Control construct. Then, as a sign of construct reliability, it can be seen based on Cronbach’s Alpha. Where the Financial Behavior construct has a Cronbach’s Alpha of 0.727 and a Locus of Control of 0.744. Both of which are above the exploratory standard of 0.60. This can be seen in the following table:

Table 2. Path Coefficient

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistics (O/STDEV)	P Values
Locus of Control -> Financial Behavior	0.337	0.346	0.059	5.733	0.000

5.2. Structural model and hypothesis testing.

Based on table 2, the coefficient result showed a significant level of 0.337 from locus of Control to Financial Behavior with T-Statistics of 5.733 and P-Value of 0.000. Thus, the inner model equation is $\eta = 0.337\gamma$. So, based on testing the validity, reliability, and path coefficient in it, it is said that the first hypothesis is accepted.

Thus, the inner model equation is $\eta = 0.337\gamma$. So, based on testing the validity, reliability, and path coefficient in it, it is said that the first hypothesis is accepted, the second hypothesis with two constructs is accepted, and the third hypothesis is accepted.

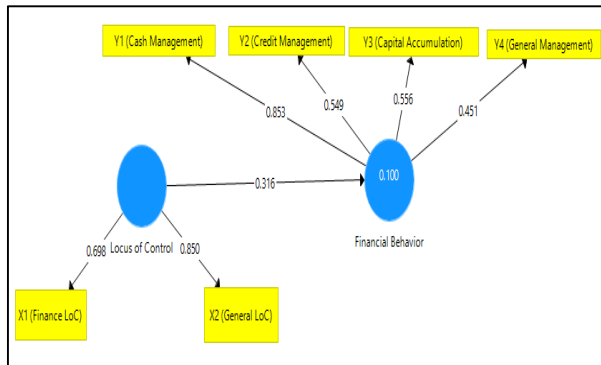


Figure 3. PLS Algorithm Result (2)

6. CONCLUSION AND IMPLICATIONS

Based on the results obtained, the Locus of Control Emerging Adults students of Management Department, Faculty of Economics, State University of Medan significantly affects their financial behavior. This result is linear with the work conducted by Jorgensen et al. [4] and Tezel [8]. The implication of this study will impact policymakers in the field of education and parents itself, that the financial behavior of Emerging Adults is significantly influenced by their financial and general Locus of Control. It is hoped that this study can be deepened by future researchers who focus on the financial psychology of Emerging Adults, where the Locus of Control variable is an essential variable to note.

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