Personal Financial Management Needs Financial Literation

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IAR Journal of Business Management ISSN Print: 2708-5139 | ISSN Online: 2708-5147 Frequency: Bi-Monthly Language: English Origin: Kenya Website: https://www.iarconsortium.org/journal-info/IARJBM R e s e a r c h A r t i c l e Personal Financial Management Needs Financial Literation Article History Abstract: Personal financial management requires financial literacy. Good and Received: 28.11.2020 correct financial management is needed by individuals and families. In order for Revision: 29. 12.2020 financial management to be efficient and effective, financial literacy is needed so Accepted: 09. 01.2021 that mistakes do not occur. The problem of lack of income is not only due to low Published: 20. 01.2021 income, but also because of mistakes in financial planning and management, such as Author Details mistakes in the use of debt. The increasing attention regarding financial literacy, this Maria Widyastuti1* Y. Budi Hermanto1 and proves how important financial literacy is for individuals and society. Financial Penta Paula1 Services Authority (OJK) released the results of research on low levels of financial literacy and research generally shows the same results, especially in developing Authors Affiliations countries. Faculty of Economics, Catholic University of Darma Cendika Keywords: Personal Financial Management, Financial Literacy. Corresponding Author* Maria Widyastuti INTRODUCTION How to Cite the Article: The struggle in real life between knowledge and behavior is Maria Widyastuti Y. Budi Hermanto and personal finance (Ramsey et al, 2003). Wealth will be achieved when Penta Paula (2021); The success of organizations and the innovation process in each individual has the ability to control personal desires even on the current economic context. IAR J Bus middle income. Huston (2010) released that personal ability in Mng; 2021; 2(1): 63-69. finance can occur if the habits of each individual to manage finances. Copyright @ 2021: This is an open-access An understanding of financial management is needed by individuals article distributed under the terms of the Creative Commons Attribution license which in order to be able to make correct financial decisions, so it is very permits unrestricted use, distribution, and important so that each individual can optimally use financial reproduction in any medium for non instruments appropriately. Lack of awareness of understanding commercial use (NonCommercial, or CC-BY- NC) provided the original author and source financial conditions will cause problems so that it becomes an are credited. obstacle for the surrounding community. Education regarding finance is the way to go through this will encourage personal financial planning in the future to increase the prosperity that is desired (Mendari & Kewal: 2013). Learning in order to increase understanding of finance is currently needed by the community. For the wider community, economic development and development have made the role of financial institutions very decisive. Financial institutions offer a wide variety of financial products and services, people are required to be smarter in choosing the types of products and services offered. The public is highly required to understand correctly, the benefits and risks of every product and service offered by financial institutions, as well as to understand their rights, obligations and to believe that their choices can improve the welfare of the community at large. The population of Indonesia is 260 million, which is the basic capital to win the competition with other countries. The method for managing cash flow by means of each individual is able to control his expenses. When the amount of cash outflow is very unlimited and causes each individual to be unable to control, this condition proves that the individual has very low or poor financial literacy. Welfare correlates with financial literacy. In everyday life, understanding and maturity in managing personal finances is needed. Financial problems are not only due to low income, but problems can also be caused by errors or mistakes in managing cash outflows which are not done with careful consideration. Limited finances cause physical and non-physical disturbances. Understanding cash flow will enable a person to manage and plan his personal cash flow, so that as an individual he is able to increase the value of the time of money so as to optimize profits so as to improve his welfare. The main objective of the cash flow literacy program is education in terms of cash flow to the wider community so that they understand cash flow management properly, thus a lack of understanding of financial companies does not occur, so that the

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by Widyastuti Maria

Submission date: 17-Jun-2022 02:09PM (UTC+0700)
Submission ID: 2030060519
File name: Personal_Financial_Management_Needs_Financial_Literation.pdf (599.41K)
Word count: 5333
Character count: 29306

IAR Journal of Business Management
ISSN Print: 2708-5139 | ISSN Online: 2708-5147
Frequency: Bi-Monthly
Language: English
Origin: Kenya
Website: https://www.iarconsortium.org/journal-info/IARJBM

Research Article

Personal Financial Management Needs Financial Literation

Article History
Received: 28.11.2020
Revision: 29. 12.2020
Accepted: 09. 01.2021
Published: 20. 01.2021

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How to Cite the Article:
Maria Widyastuti Y. Budi Hermanto and Penta Paula (2021); The success of organizations and the innovation process in the current economic context. *IAR J Bus Mng*; 2021; 2(1): 63-69.

Abstract: Personal financial management requires financial literacy. Good and correct financial management is needed by individuals and families. In order for financial management to be efficient and effective, financial literacy is needed so that mistakes do not occur. The problem of lack of income is not only due to low income, but also because of mistakes in financial planning and management, such as mistakes in the use of debt. The increasing attention regarding financial literacy, this proves how important financial literacy is for individuals and society. Financial Services Authority (OJK) released the results of research on low levels of financial literacy and research generally shows the same results, especially in developing countries.

Keywords: Personal Financial Management, Financial Literacy.

INTRODUCTION

The struggle in real life between knowledge and behavior is personal finance (Ramsey et al, 2003). Wealth will be achieved when each individual has the ability to control personal desires even on middle income. Huston (2010) released that personal ability in finance can occur if the habits of each individual to manage finances. An understanding of financial management is needed by individuals in order to be able to make correct financial decisions, so it is very important so that each individual can optimally use financial instruments appropriately. Lack of awareness of understanding financial conditions will cause problems so that it becomes an obstacle for the surrounding community. Education regarding finance is the way to go through this will encourage personal financial planning in the future to increase the prosperity that is desired (Mendari & Kewal: 2013).

Learning in order to increase understanding of finance is currently needed by the community. For the wider community, economic development and development have made the role of financial institutions very decisive. Financial institutions offer a wide variety of financial products and services, people are required to be smarter in choosing the types of products and services offered. The public is highly required to understand correctly, the benefits and risks of every product and service offered by financial institutions, as well as to understand their rights, obligations and to believe that their choices can improve the welfare of the community at large. The population of Indonesia is 260 million, which is the basic capital to win the competition with other countries. The method for managing cash flow by means of each individual is able to control his expenses. When the amount of cash outflow is very unlimited and causes each individual to be unable to control, this condition proves that the individual has very low or poor financial literacy. Welfare correlates with financial literacy. In everyday life, understanding and maturity in managing personal finances is needed. Financial problems are not only due to low income, but problems can also be caused by errors or mistakes in managing cash outflows which are not done with careful consideration. Limited finances cause physical and non-physical disturbances. Understanding cash flow will enable a person to manage and plan his personal cash flow, so that as an individual he is able to increase the value of the time of money so as to optimize profits so as to improve his welfare.

The main objective of the cash flow literacy program is education in terms of cash flow to the wider community so that they understand cash flow management properly, thus a lack of understanding of financial companies does not occur, so that the community is smarter and understands very well the variations in investment that provide large profits with predict the risks that will be borne. The importance of understanding the variations in investment released by financial institutions, the government through the OJK establishes a national strategy regarding financial literacy (OJK 2013): First, prioritizing education and promoting financial literacy nationally. Second, strengthening financial literacy infrastructure. Third, increasing the variety of financial services that are accessible to the wider community. The implementation of the three pillars is expected to make Indonesian people have a high level of literacy so that they are able to choose and utilize financial service products in order to improve welfare. The financial literacy enhancement program that the OJK started in 2013 proved the low level of financial literacy. OJK states that financial literacy in Indonesia is divided into four: 1) Well literate, has an understanding and skill in using financial products and services; 2) Sufficient literate, having beliefs about financial products and services 3) Less literate, understanding financial products and services. 4) Not literate, have no understanding. The results of the 2019 survey conducted again by the OJK are still low, which is still below 50% (38.03%) even though this figure is higher than 2016 (29.7%). Welfare can only be achieved through a correct understanding of finances (Lusardi & Mitchell, 2007). Overcoming poverty and financial problems the right way is if every individual and society has a good understanding of finance.

Every individual needs a correct understanding of the flow of funds so that there are no mistakes in deciding financial problems and using the products offered appropriately. The lack of understanding of financial literacy will cause major financial problems for individuals and society in Indonesia. Understanding the flow of funds is an educational process in the long term and will follow the lifestyle that is lived (Mendari and Kewal 2013).

Every individual really needs an understanding of finances so as not to face problems, especially about finances. Fund flow problems will arise because of errors in their management. Understanding of finances is a prerequisite for getting a better life in the future. Use followed by a correct understanding of the flow of funds will improve the standard of living, because the size of a person's income without being balanced with proper management, problems will arise in financial security so that financial institutions often urge the public not to be fooled by various kinds of large bonuses. The benefits of understanding finance in all forms are not because it wants to make it difficult to stay [in] so that each individual can enjoy a better life in the future

Xu and Zia (2012) released an understanding that the flow of funds or personal finance is the most important need in today's society, because individual decisions every day will have an impact on the security and status of life in the future. Many individuals underestimate personal finances, so that they do not take their studies seriously. Financial literacy is very useful for individuals and society in general, it is also very much needed to improve the financial services industry because the one who benefits the most is the wider community. The financial services industry will be motivated to always innovate in developing its products so that they are more varied according to the development of society's needs. According to Giltman (2002), art and science are two inseparable things as well as personal financial management is the art and science of the flow of personal funds, called art because requires determination to always be committed to managing finances. Commitment will encourage you to stick to the principles that you already believe.

RESEARCH METHODS

This research is a descriptive study, namely research that aims to provide a comprehensive picture of the relationship between the existing phenomena through the findings of previous research and the literature that explains financial management and financial literacy, so that students as individuals understand how important it is. financial literacy in financial management.

RESEARCH RESULT

An important aspect of people's lives is finance. Owned understanding of finance will be very useful for individuals in making decisions in choosing financial products and services in order to maximize their financial decisions. An understanding of finance is absolutely necessary so that you can make correct financial decisions (Margaretha & Pambudhi 2015). If the understanding of the flow of funds is minimal, it will have an impact on the individual's losses, both due to inflation and changes in national and global economic conditions. Mismanagement of expenditures will lead to waste: unnecessary consumption expenditures are uncontrolled and bank loans are not used according to their intended use. The next consequence is a lack of financial knowledge which causes difficulties in accessing financial markets and making investments in individuals. Vit et., Al (2000) explained that financial literacy is a part of individual skills in understanding, analyzing, and explaining financial conditions with a very broad impact, namely the prosperity of society.

OJK (2017), releasing the quality of decision making that has an impact on improving the welfare of the community requires understanding, skill intelligence, confidence, financial literacy Chen and Volve (1998) financial literacy is an understanding of controlling finances with the hope that in the future life will be calmer because there are no problems. with finance. Huston (2010) The concept of financial literacy includes financial knowledge, the ability to understand communication, the ability to manage personal and company finances and be able to make decisions in certain situations. PISA 2012: Financial Literacy Assessment Framework (OECD INFE, 2012) underlines economic growth and financial stability. Financial literacy is a fundamental factor. In considering the quality of spending decisions, it will show good financial literacy. This will lead to healthy competition in innovating to produce goods and services offered to consumers. Wrong decision making can be minimized by a good understanding of literacy in dealing with economic and financial issues. Good financial literacy is necessary for financial service providers to understand the risks of each product. From a government perspective, if the understanding of financial literacy in the community is good, revenue from taxes can be maximized so that the government has funds to build public facilities and infrastructure. Differentiating financial options is part of financial literacy skills, preparing for the future, inconvenience, general economic events to face all require financial skills. Individuals who have the expertise to use existing resources to achieve goals, this indicates that financial literacy has been understood. Lusardi and Mitchell (2007) emphasized that individual intelligence in practicing knowledge about the flow of funds is called financial literacy.

Financial literacy is found in a capable individual, meaning that the individual has the ability and expertise to manage resources to achieve goals. This study uses the theory put forward by Chen and Volpe (1998) because it emphasizes the ability to understand basic financial concepts and the knowledge of personal financial management regarding savings, insurance and investment. Understanding personal or personal financial literacy will have an impact on the ability to save in the long term, which in turn is invested in land, property to prepare for retirement (Aribawa, 2016). Financial literacy shows a person's ability to obtain, understand and analyze relevant information as a basis for decision making by understanding the consequences that will be faced. Relevant information is an important instrument in understanding financial literacy in making the right decisions (Beck et al. 2007). The results of the research of Navickas et al (2000) state that each individual should plan as early as possible because the errors that occur will be difficult to correct in a long time. These findings indicate that a lack of financial understanding will result in the condition of households being unable to manage finances, resulting in expenditures that are not really important. This will have an impact on the amount of savings and investment to be low. The next conclusion is that a high level of financial awareness will have a positive impact in making decisions so as to encourage high savings rates, long-term consequences that can improve the quality of life of each individual.

Rohrke and Robinson (2000) argue that financial literacy provides consumers with an understanding of the benefits of establishing good energy with non-bank financial institutions and bank financial institutions, the existence of sources of funds, the success of good fund management. The findings of Hailwood (2007) financial literacy will have an impact on how individuals invest funds, choose funding and manage finances. Furthermore, financial competence focuses more on understanding the basic concepts of economics and finance. Chen and Volpe (1998) assert that financial literacy is divided into four: basic financial understanding, savings and loans, protection and investment. Fundamental understanding of finance includes funding, income, assets, debt, equity and risk. Basic knowledge is closely related to individual behavior in managing their personal finances to make investments and financing. Various opinions regarding finance, basically financial intelligence include: fund management, both inflows and outflows. From this understanding, the community is still shackled on how to get money not yet in the other three aspects. Some people are still trying to find that one aspect. We often see individuals with certain professions who were originally wealthy, in their old age become financial difficulties because they just understand about getting money but do not understand how to properly manage, invest and use it.

Financial literacy consists of several dimensions that must be understood. Chen and Volpe (1998) mention the dimensions of financial literacy: general knowledge of finance, savings and loans, insurance and investment. Marsh (2006) explains that understanding the flow of funds includes knowledge of the flow of personal funds, namely managing income and usage, and understanding the important factors of the flow of funds. The concept of cash flow includes practical calculation of interest, interest on interest, macro factors, opportunity cost, time value of money, and the level of liquidity in an asset.

Garman and Forgue (2010: 376), emphasize that savings are the sum of excess money which deliberately reduces expenditure for consumption so that there is excess income. Kapoor, et al., (2004: 147) explained that there are 6 aspects that must be taken into account in choosing savings: rate of return (percentage of savings increase); inflation (it is necessary to understand the rate of return because it affects purchasing power); tax rate; liquidity (speed in withdrawing short-term funds without experiencing losses); security (if the bank is in liquidation, is there any protection for customer deposit funds), and interest payments are put together in the account and are not according to schedule, there is a fee for taking time deposits). Sembiring (2014) explains that coverage is a means of saving losses, by combining several coverage so that the amount is sufficient, so that each individual risk can be predicted. Thus the risk is borne collectively or collectively. Garman and Forgue (2010: 367), explain that investment is the placement of funds so that in the future they can get more money. The means that individuals often do in investing are investing in: gold, stocks, bonds, mutual funds, and property.

Research by Gitman (2002) emphasizes that personal finance managers need the art of managing resources (money). In the management process, you will definitely face problems in applying it because you have to go through several stages that must be passed. So that the understanding of managing personal individual finances becomes the starting stage in properly applying personal money management. All of that is based on the reason that everything must be carefully thought out and then acted. Good personal financial management will lead to a lifestyle that has a priority scale. The ability to reason is the power of priority which in turn will affect a person's level of discipline in managing their finances (Kholilah and Iramani, 2013) Talking about discipline where it is self-awareness in obeying the rules and one's ability to adapt to a change, so that it explicitly concerns self-control. Tangney et al. (2004) said that the success or failure of a person's personality is greatly influenced, one of which is the ability to control oneself.

According to Warsono (2010), the management of individual fund flows is seen from 4 sides: 1) the expenditure of funds, the problem is not where the sources of the funds are obtained, the important thing is how to use the funds in order to fulfill their needs wisely. The priority scale must be the main concern in allocating funds, but still looking at the percentage of each expenditure item, lest there be an expenditure item that has no funds. Most of the expenditure is for consumption needs and the allocation of funds reaches seventy percent, twenty percent is for savings in case there is a sudden need, while the ten percent is used for investment to prepare for old age at retirement. Because most of it, namely seventy percent of its expenses are basic or primary needs, careful calculation of personal needs will help determine the amount of consumption needs, which will make it easier for you to achieve personal goals.

The need for consumption should not exceed seventy percent. Imawati et al (2013) state that buying consumer goods excessively and not planning is consumptive behavior. In general, this behavior occurs during adolescence (Sumartono, 2008). Furthermore, Mankiv (2007) based on the 'General Theory' from John Maynard Keynes, naturally individuals will increase consumption when their income increases but not as big as an increase in income, meaning that when individuals receive extra money, part of the consumption will be used and part of it will be saved. Twenty percent saved not only in case of precaution can also be used for investment capital. Meanwhile, the remaining ten percent for investment must be carefully planned so that benefits can be enjoyed in the future. What is used for investment is only ten percent small, so if you have a business plan that requires large funds, there are several alternative funding, each alternative must be analyzed carefully and compared before a decision is made 2) determining the source of funds, someone as an individual must be able to determine his choice to find sources of funds. Sources of funds can be from anywhere such as: income, parents, inheritance or sales of goods owned. Revenue can be obtained independently from various sources, both main business and side business. With the ability to obtain funding sources, a person will automatically be able to make decisions about the management of his financial resources; 3) risk management, in anticipating unforeseen conditions a person must have protection against unexpected events followed by unexpected expenses such as illness requiring hospitalization.

With a good understanding of financial protection, it can be done by joining insurance. Actually the ability to manage the risks that will be faced is what is often called risk management; 4) planning for the future, the future is a condition full of uncertainty but that is what everyone will aim at, so careful financial planning is needed to deal with this situation.

By planning, it means that you have analyzed your future needs, thus you will prepare an investment from now on. Senduk (2004) emphasizes that the above statement of personal fund management is a decision regarding: 1) obtaining a lot of productive assets, productive assets are assets that can minimize daily expenses. For example, if you are a student, you can save on rental expenses if you have a computer and printer. You should try to buy productive assets when you have funds. You must prioritize having productive assets that really support your activities; 2) manage your expenses, plan your expenses and try not to have financial difficulties (deficits). Try to plan your expenses, all funding needs are considered. Manage personal finances properly and carefully should become a habit; 3) should really consider if you are going to go into debt, you must be sure that debt is the right solution. Most of the entrepreneurs do bank credit as a source of funding. In managing the flow of personal personal funds, if you are short of funds so that you have to go into debt, you must look at the ability to return them, so as not to interfere with your overall financial planning; 4) Set aside revenue for the future, plan systematically about your future. With planning, you can save a portion of your income to invest in preparation for the future. Financial management by having made an investment, this means that you have reduced risks towards the future you expect; 5) have potential, try to have insurance that aims to protect you from unwanted possibilities. If you do not have a constant income, you should save and set aside a portion of the income to be saved as part of protection against possible risks.

Yulianti and Silvy (2013) explain in financial management to achieve your goals you must do financial planning, in the near and long term. Means to achieve goals through savings or investment. Through understanding the correct flow of funds, you will be able to control behaviors that have unlimited desires. Marcolin & Abraham (2006) emphasize the need for financial literacy. Perrota and Johnson (2008) explain personal financial management is an early stage of planning, implementation and control which is carried out privately and all family members, the hope is that each individual and family can build wealth for the future.

Financial management can be viewed from 5 aspects: it can be seen that the carefulness of individuals in making budgets, avoiding unnecessary expenses, controlling cash outflows (Perry and Morris, 2015). ahead, save money, and leave income for self and family needs. The greatest influence of the five components lies in the way an individual manages his expenses. Non-consumption expenditures such as: schools for children, information, health, coverage. From non-consumption expenditures on education costs are expenditures with the first priority due to the formation of a future for children. However, these non-consumption costs can all be saved

The understanding of personal financial management is also due to the knowledge that individuals 7ve. Cummins (2009) reveals that the individual's ability to manage finances is one of the keys to success in life, thus understanding correct financial management is fundamental for individuals and community members. Rapih (2016) states that literacy education should be as early as possible because it will affect future welfare, someone who has an understanding of finance will have an impact on fund management. Likewise, Andrew and Linawati (2014) emphasized the effect of understanding the flow of funds on one's financial behavior, the more understanding finances, the more intelligent someone will be in interpreting their financial management.

Senduk (2004) explains that financial planning is the process of setting goals while the goals themselves consist of present and future goals. Wibawa (2003) asserts that planning the flow of funds does not promise individuals to get rich quick, but will make individuals more disciplined in financial management. The right way of self-control and preparing a better future financial condition for individuals and families efficiently and effectively according to their abilities, both safe financial guarantees and thirdly to achieve goals requires efficient and effective family financial planning. Sembel, et al (2003) in Rita and Santoso (2015) emphasized the reason that every individual and family really needs to plan the flow of funds, so that they are able to predict losses that affect finances, reduce loans, in an effort to continue their personal life at retirement age, this is related to increased expectations. living, to finance the expenses necessary to provide an adequate level of education for the child. Buying a means of transportation, buying a house to take shelter, being able to make and pass on welfare to the next genera10. Yushinta (2017) this research makes us aware of the importance of financial literacy for individuals and families so that mistakes do not occur in financial management.

CONCLUSION

Happiness in living life does not depend on how much wealth we have, career success achieved, but happiness can come from accepting the real condition. Understanding in managing individual finances, actually the highest goals in life have been understood to achieve them. Understanding finance will make each person carry out financial activities more in control. Financial understanding will show a comprehensive and in-depth understanding of personal financial management, and help individuals not to be exposed to financial problems, especially those that occur because of a lack of understanding of finances. Understanding in financial literacy does not aim to limit individuals in enjoying life but with financial literacy it will help individuals, so that each individual is able to live his personal life by maximizing the use of his financial goals.

The role of personal understanding of finances is not only to be known, it is more emphasized so that each person is rational and full of consideration in using assets, in order to generate benefits in supporting his personal finances to live life. What matters is not how much income but how much income can be saved or invested, because the cost of living is not expensive but what is expensive is the lifestyle.

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