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## Article

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# Impact of Family's Socio-Economic Context on Financial Literacy of Young Entrepreneurs

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*This study aims to analyze parents' socio-economic relationships which include parental education, parental occupation, and parental income towards financial literacy. This study uses a sample of young entrepreneurs, students who are active in college and they also run a business. The results showed that the level of financial literacy of young entrepreneurs was at a moderate level. Furthermore, parental education and income have a relationship with financial literacy, whereas parental work does not influence financial literacy.*

**Keywords:** financial literacy, parental education, parental occupation, parental income, young entrepreneurs

**JEL Classification:** D14, M49

## 1. Introduction

Financial literacy is a very important aspect and it also represents an interesting issue for further investigation because it has an impact on the welfare of everyone in the future. Financial literacy is a basic requirement for everyone to avoid financial problems (Mendari and Kewal, 2013). Financial literacy is a series of processes or activities to increase knowledge, beliefs, and skills of consumers and the wider community so that people are able to manage their finances better. Therefore, financial literacy is the knowledge to manage finance especially in decision making processes. This includes how a person manages or allocates his finances for current and future needs. So, if someone has high financial literacy, it can be assured that the person will avoid financial problems in the present and in the future. Conversely, someone who does not have or only has a low financial literacy will most likely be unable to make a budget, unable to control spending, and unable to understand financial products as to which they cannot maximize their welfare. Hence, financial literacy cannot be underestimated (Oseifuah, 2010). Financial literacy influences financial behavior, whereas financial behavior will influence financial wellness. Thus, it is necessary to study the factors that influence financial literacy (Hanson and Olson, 2018).

Financial literacy is closely related to the family background, especially related to parental education

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(Lusardi, 2012). In other words, financial literacy starts within the family. Children will have financial literacy from observing their parent's financial behavior, such as when their parents save and invest. Not only through observation, but also parents can educate their children to conduct financial management (Cude et al., 2006). Parental involvement plays a large role in children's financial education and understanding because most children learn financial management skills at home (L. Mandell, 2009). Therefore, parents are the main agents of socialization in the learning process of children regarding money and the unintentional process of developing financial management behaviors (through direct observation or participation) of the family (Chotimah and Rohayati, 2015).

The family environment influences children's financial literacy (Lusardi et al., 2010). Likewise, parental income and education influence children's financial literacy (Gunardi, Ridwan, and Sudarjah, 2017). However, other studies show different things, namely how the environmental socioeconomic status of parents does not directly influence the financial literacy of cognitive aspects and attitudes (Widyawati, 2012) while the social environment, including the family environment does not influence financial literacy (Sobaya, Hidayanto, and Safitri, 2016). The family environment in this case is how the education of one parent does not influence financial literacy (Ansong and Gyensare, 2012). The different results make the topic of family environmental research on financial literacy as an important topic to be researched again.

This study aims to investigate the effect of parent's socioeconomic conditions on student financial literacy. Socioeconomic conditions in this study include parental income, parental education, and parental occupation (Chotimah, Ani, and Widodo, 2017). The parents in this study are the father who is the head of the family. Students in this study are students who pioneered businesses, and these students are named by the researcher as young entrepreneurs. After each section of the paper there is one line of spacing.

## 2. Literature Review

Parents who have a higher socioeconomic status tend to have broader insight and are more able to achieve greater income compared to someone who has a lower socioeconomic status. In the family environment, the level of financial literacy can be determined by the role of parents in providing financial support or education in the family. Financial management education in the family itself can be influenced by the parent's socioeconomic status. The socioeconomic family can be divided into 3 things that include parental income, parental social position or profession, and parental education level. Higher household incomes tend to have higher levels of financial literacy because they use financial instruments and services more often. Income from parents is a significant factor to the level of financial literacy in students. So, there is a relationship between parental income and financial knowledge (Margaretha and Pambudhi, 2015). Professionals that increasingly require parents to manage finances professionally will increase parent's interest in providing knowledge to their children about financial arrangements. Similarly, if parental profession does not support or is not supported by financial literacy, then parents will not explain to their children the importance of financial literacy.

Studies on the relationship of the family environment to financial literacy have been carried out by several researchers. However, the results provide varied results.

Chotimah and Rohayati (2015) examined the social-economic relationship of parents, financial knowledge, spiritual intelligence, and peers to the personal financial management of students. The results of this study state that financial education in the family has a relationship to personal financial management, the parent's socioeconomic status have no influence on personal financial management, financial knowledge has an influence on personal financial management, spiritual intelligence has no influence on personal financial management, and peers have significant influence on student's personal financial management. Likewise, Sofia and Irianto's (2016) study found that parental income is related to student's financial literacy.

According to the research conducted by Homan (2015), it was proven that parental education influences the level of financial literacy. Based on this research, students with high parental education have a higher level of financial literacy than students with low parental education. Thus, the first hypothesis is:

*H1: Parental education influences financial literacy.*

Chotimah and Rohayati (2015) proved that parental income influences the level of financial literacy. The research was supported by the research by Margaretha and Pambudhi (2015). Based on this research, the second hypothesis is:

*H2: Parent income influences financial literacy.*

A profession is a position or occupation that demands expertise from its members. That is, cannot be

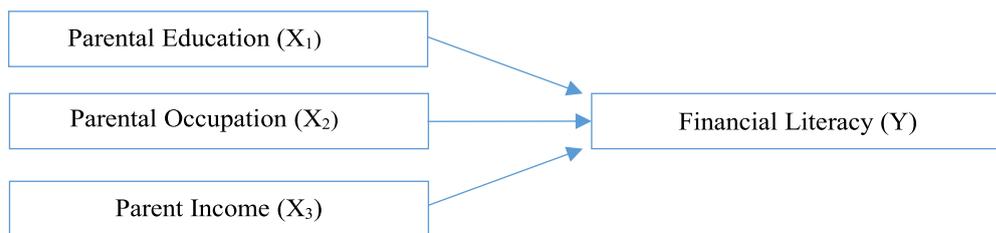
done by just anyone who is not trained and not specifically prepared for the work. If parents have a profession in the financial sector, it can be interpreted that these parents have expertise in the financial sector, both in the knowledge or use of financial products. Students whose parent's profession is in finance have a higher level of financial literacy than students whose parent's profession is not in finance. The involvement of parents with their profession when interacting with children can certainly impact the child (Mandell and Klein, 2009). The third hypothesis is:

*H3: Parental profession influences financial literacy.*

### 3. Research Methodology

Research on financial literacy has been carried out using student samples. This study is different from previous studies because it uses a sample of students who have a business, and these students are named by the researcher as young entrepreneurs. The sampling method used was purposive sampling, namely students who have had business for more than two years.

The definition of the research variable used is as follows: Parent income is considered low if less than Rp 10,000,000 / month, the equivalent of approximately 710.76 US Dollars / month (at an exchange rate of 1 Indonesian Rupiah equals 0.000071 United States Dollar), medium if it is between Rp 10,000,000 and Rp 30,000,000 / month (between 710.76 and 2132.27 US Dollars), and high if it is more than Rp 30,000,000 / month (more than 2132.27 US Dollars). Parental education includes elementary school, junior high school, high school, bachelor, master, and doctoral degree. The profession of parents who participated in this study are professionals / employees and entrepreneurs. Here is the research model:



*Figure 1. Research Model*

### 4. Analysis and Results

Distributed questionnaires amounted to 300 sets and the number returned and could be processed amounted to 171 sets. The level of financial literacy of respondents in this study is as follows:

*Table 1. Level of Financial Literacy*

No	Level of Literacy	Amount	Percentage	Information
1.	<60%	31	18%	Low
2.	60%-80%	115	67%	Moderate
3.	>80%	25	15%	High

Table 1 shows that 18% of young entrepreneurs have low financial literacy, 67% have a moderate level of financial literacy, and 15% have a high level of financial literacy. These results indicate that young entrepreneurs who have businesses seem to have better financial literacy at a moderate level. This condition supports the research of Radianto, Efrata, and Dewi (2019) who studied the level of financial literacy of young entrepreneurs at a moderate level. In addition to being young entrepreneurs, running their business enables them to manage their finance better. Also, their business transactions put them in contact with banking processes.

This is in contrast to studies that use a sample of students (who do not necessarily own businesses) who still have the level of literacy as being still in the low category, especially researches conducted by Krishna, Rofaida, and Sari (2010), Mendari and Kewal (2013), Margaretha and Pambudhi (2015), and Ulfatun, Udhma, and Dewi (2016).

*Hypothesis testing*

F-Test results are seen in table 2 below.

**Table 2. F-test**

Model	Sig
Regression	0,000

Table 2 shows that the significance value of F is 0,000. This value is smaller than 0.05, so the model is declared as fit. This model states that the variables used are feasible. Table 3 shows the significant test parameters.

**Table 3. t-test**

Variable	Sig
Parental Education	.031
Parental Occupation	.685
Parent Income	.000

Based on table 3, the individual effects of independent variables on the dependent variable are as follows:

a. The influence of parental education on financial literacy

The significance value of parental education is 0.031, which is below 0.05, indicating that parental education has an influence on financial literacy. In this case, the first hypothesis is accepted. The higher the education of parents, the higher the financial literacy of young entrepreneurs will be.

b. Effect of parental occupation on financial literacy.

The significance value of parental work is 0.685, which is above 0.05, indicating that parental work has no influence on financial literacy. In this case, the second hypothesis cannot be accepted. The type of work of parents does not influence the financial literacy of young entrepreneurs.

c. The effect of parental income on financial literacy.

The significance value of parental income is 0.00, which is below 0.05, indicating that parental income has an influence on financial literacy. In this case, the second hypothesis is accepted. The higher the income of parents, the higher the financial literacy of young entrepreneurs.

Next, the researcher tested the coefficient of determination, as shown in table 4.

**Table 4. Determination Coefficient Test**

R	R Square	Adjusted R Square
.428 <sup>a</sup>	.183	.168

Table 4 shows the R value of 0.428. In this case it appears that the variation of the independent variable is quite good at explaining the dependent variable. It can be said that the correlation of parental income variables, parental education, and parental occupation on financial literacy has strong influence.

## 5. Discussion

This study found that the level of parental education influences financial literacy, meaning that the higher the level of parental education, the better the level of financial literacy of their children, in this case young entrepreneurs. Saputro (2014) stated that the level of parental education is a very important factor for children's growth. This is supported by the Indonesian Financial Services Authority which stated that the role of parents in increasing financial literacy for their children is very important. Parental involvement is crucial to fostering understanding of financial literacy. Therefore, parents are expected to be able to apply Financial Literacy to children as early as possible. Previous test results suggest that parental education influences the financial literacy of young entrepreneurs, making parental education as a large predictor of financial literacy (Lusardi et al., 2010). According to Lusardi et al. (2010) the higher the education of parents, the deeper the cultivation of knowledge on financial management will be for their children. This can indicate that the higher the level of parental education will influence the understanding of financial literacy of their children. Therefore, this study reinforces that financial management education in the family can be influenced by parent's socioeconomic status. This research supports the research of Margaretha and Pambudhi (2015), Lusardi (2012), and Chotimah and Rohayati (2015).

This study found that the occupation of parents did not influence the financial literacy of young entrepreneurs. This is likely to occur due to several things. Parents feel that children's understanding of finance

is not their responsibility, as parents can also feel that they are not a good "teacher" for their children to teach about finance (Jorgensen, 2007). Furthermore, children follow the pattern of poor financial management carried out by their parents, so that children do not have sufficient financial literacy (Clarke et al., 2005). This study supports the research of Chotimah et al. (2017).

Parents who have higher income tend to give more financial responsibility to their children. So that parents will provide education both directly and indirectly on how to manage finances for their children. The higher the income of the parent, the higher the level of financial literacy of these young entrepreneurs. The results support the results of a study conducted by Margaretha and Pambudhi (2015), who found that income from parents was a significant factor in the level of financial literacy in West Java students. Keown, in the research of Margaretha and Pambudhi (2015), explained that there is a relationship between parent's income and financial knowledge. This shows that parents with higher household incomes tend to have higher levels of financial literacy because they use financial instruments and services more often. This research supports Margaretha and Pambudhi (2015), Sofia and Irianto (2016), and Gunardi et al. (2017).

Managerial implications are as follows. Financial education is the responsibility of parents so that whatever parents work they should give time to provide financial education for their children. Parents should provide financial education as soon as possible. Parents can provide education to their children in various ways such as training children to save, training children to distinguish desires and needs. Schools must provide financial education to students. Financial education conducted by schools and parents will further ensure that children have a high level of financial literacy. Children who have a high level of financial literacy will have a better future so that when they become parents, they will certainly provide better financial education to their children.

## 6. Conclusion

Based on data analysis and discussion, the conclusions of this study are as follows. Financial literacy of young entrepreneurs is included in the moderate category. As entrepreneurs, of course they can manage their finance quite well. They are familiar with several financial instruments that can be used to support their business.

Education and income influence the financial literacy of children, and in this research, these are affecting young entrepreneurs. The results indicate that the higher the income, there is more tendency to increase the level of financial literacy of young entrepreneurs. Similarly, the higher the education, the higher the tendency to increase financial literacy. However, the work of parents does not influence the financial literacy of young entrepreneurs. This research found that family socioeconomic status has a very important role in financial literacy.

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