Contribution of Financial Literacy and Demographics on Investment Decision

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Abstract:- This study examines and analyzes the contribution of financial literacy levels and demographics to investment decisions. The population in this study are MSME actors spread across the Coastal Coast of Gorontalo City, Indonesia. The research sample was 97 MSME actors. Sampling used non-probability sampling method with purposive sampling technique. Data was collected by distributing questionnaires. The variables in this study are financial literacy and demographics (age, education level, length of business, gender and income) as independent variables and investment decisions as the dependent variable. The method used in this research is multiple linear regression analysis. The results showed that the variables of financial literacy, education level, length of business and income level had a positive and significant impact on investment decisions for MSME actors. While the variables of age and gender were found to have no significant effect on investment decisions.

Keywords:- Financial Literacy; Demography; Investment Decision; MSME.

I. INTRODUCTION

Ownership of investment instruments in Indonesia in the last four years shows an increasing trend. Opportunity for profit is one of the reasons. Many potential investors are interested in investing because it increases lucrative profits, but of course by paying attention to the risks that must be borne. KSEI data as of September 2021 shows the number of investors in Indonesia based on Single Investor Identification (SID) growth as follows:

In figure 1, it can be seen that in the capital market as of September 2021 there were 6,431,444 investors, C-BEST as many as 2,908,954 investors, Mutual Funds with 5,784,899 investors and Government Securities as many as 571,794 nvestors. This trend shows an increase from year to year since 2018 for the four instruments in the capital market.

Figure 1 above is an illustration that the knowledge of the Indonesian people towards investment tends to increase, but when compared to the total population of Indonesia which is 270.2 million people in 2020 Kristianus (2021), the number of investors in the capital market is only Rp. 2.4%. Meanwhile,

when viewed from the number of people who are included in the productive age in 2020, it is 70.72% or 191,085,440 million people. When compared to the working age population group, the number of investors in the capital market is only 3.4%.

The low percentage of the Indonesian population participating in investment is caused by various factors such as the level of public knowledge of financial literacy and also the demographic conditions of the Indonesian people [2]–[4]. The low level of financial literacy and demographic conditions have caused the ability of the Indonesian people to make decisions to have a number of investment instruments in Indonesia to be very lacking. Data from the Financial Services Authority in 2019 shows that the financial literacy index in Gorontalo Province is the lowest on the island of Sulawesi, which is only 31.23% [5].
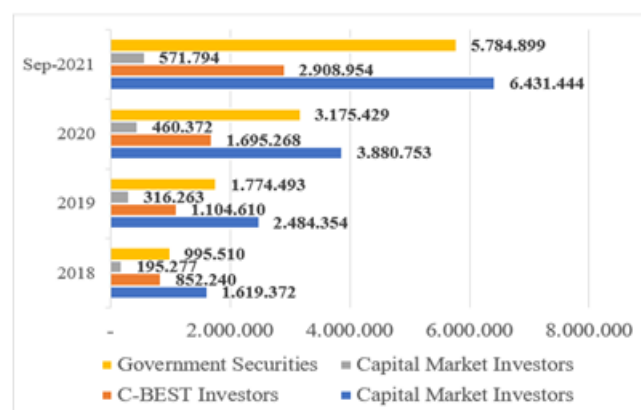

Fig. 1. Single Investor Identification (SID) in Indonesia

The ownership of various investment instruments, both in the capital market and in the banking world, is very necessary to support the country's economy. The MSME sector is expected to take advantage of these opportunities to invest. The rapid growth of the MSME sector in Indonesia based on data from the Ministry of Cooperatives and SMEs of the Republic of Indonesia (KEMENKOPUKM) in 2021 shows that the number of MSMEs in Indonesia reaches 1,271,440 with the number of workers in the MSME sector reaching 2,584,212 people [6]. If this can be maximized, it is likely that the number of investors in the capital market and in the banking industry with investment instruments will also increase.

II. LITERATURE REVIEW

A. Investment

Investment is a delay in current consumption, to be used in a production process effectively and efficiently for a certain period. Sacrifice of current consumption, defined as an investment activity to obtain consumption in the future. This is because the sacrifice of current consumption is intended to produce more than one unit of consumption in the future.

The thing that underlies an investment decision is how much profit and risk the investor will accept. The level of profit to be obtained is related to the level of risk that will be accepted. The higher the level of expected profit, the higher the level of risk that may be accepted. Thus, this is a principle that is highly considered by an investor in making investment decisions.

B. Type of Investment

Investments in financial assets can be in the form of direct investments and indirect investments. Direct investment is done by purchasing financial assets directly from a company, either through intermediaries or in other ways. On the other hand, indirect investment is done by buying shares from investment companies that have portfolios of financial assets from other companies as shown in Figure 2.
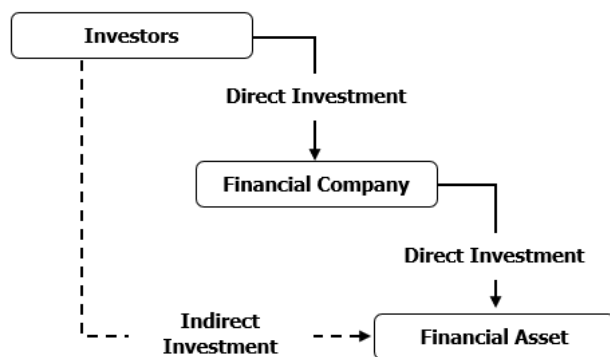

Fig. 2. Direct and Indirect Investment

Direct investment can be done by buying financial assets that can be traded in the money market, capital market or derivative market. Direct investment can also be made by purchasing non-tradable financial assets. Financial assets that cannot be traded are usually obtained through commercial banks. These assets can be in the form of savings in a bank or certificates of deposit. Meanwhile, assets that can be traded in the money market can be in the form of assets that have a small failure risk, short maturity with a high realization rate.

Indirect investment is done by buying securities from investment companies. An investment company is a company that provides financial services by selling its shares to the public and using the funds obtained to be invested in its portfolio. This means that the investment company forms a portfolio (hopefully the portfolio is optimal) and sells it retail to the public in the form of its shares.

C. Financial Literacy and Investment Decision

Financial literacy is a set of community knowledge and skills in making effective decisions and policies by utilizing all attractive financial resources. Financial literacy can be a comprehensive and in-depth understanding of personal or family financial management that makes a person have the power, understanding and full confidence in the financial decisions taken.

OJK Regulation Number 76 of 2016 defines that financial literacy is knowledge, skills and confidence that influence attitudes and behavior to improve the quality of decision making and financial management in order to achieve prosperity.

Investment decisions are influenced by several factors including financial literacy and demographic conditions of the community in general and investors in particular. Fedorova *et al*., (2015) in their research found that the average Russian citizen has a fairly low level of financial literacy. The findings of his research show that: firstly, 39% of Russians know about finance at a basic level, 29% know it at an advanced level and 13% know about this finance in the Russian stock market (practitioners). Second, the level of financial literacy of respondents (Russian citizens) affects their level of participation in financial markets. In his research, it was found that many respondents who have a level of education and knowledge about finance are more active in the stock market, invest savings for retirement and have fewer non-performing loans in banks. Based on previous research and theoretical studies, the first hypothesis in this study is

Hypothesis 1. Financial literacy has a significant effect on investment decisions

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D. Demographics and Investment Decision

Demographic factors play an important role in determining the investment decision to be selected. The influence of investor demographic factors needs to be considered, because in making investment decisions, investors often involve more than one individual. This means that demographics are one of the factors that influence investment decisions in Indonesia.

Research conducted by Wahyuni & Astuti (2021) shows that demographically investment decisions are influenced by age and education level, which means that the more mature and the higher the education level of a person, the investment decisions will increase. On the other hand, factors that do not affect investment decisions when viewed from a demographic perspective are gender, income, type of work, marital status and

investment experience. Based on previous research and theoretical studies, the second hypothesis in this study is:

Hypothesis 2. Demographics have a significant effect on investment decisions.

III. RESEARCH METHOD

This research was conducted using a quantitative approach. The object of this research is SMEs in the coastal city of Gorontalo. With a total sample of 97 MSME actors. The sample technique in this research is purposive sampling with certain criteria. The data analysis method used is the multiple regression analysis method which is carried out using SPSS analysis software.

The test was conducted on the independent variables consisting of financial literacy and demographics (age, education level, length of business, gender and income level) as well as investment decisions as the dependent variable. The testing process is carried out through several stages, namely validity and reliability tests, regression assumption tests, hypothesis testing and coefficient of determination tests..

A. Result

Based on table 4.1, it can be seen that all the variables used in this study have a standard deviation value that is smaller than the mean value, so it can be concluded that the data variation of each variable is almost the same.

Table 4.1. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
Financial Literacy	97	30.33	67.11	50.3391	8.05849
Age	97	3.00	13.32	8.3787	1.99624
Level of Education	97	4.03	13.36	8.5895	2.08247
Lenght of Business	97	2.82	8.64	6.1008	1.45366
Gender	97	3.91	9.33	6.6662	1.44810
Level of Income	97	5.37	14.51	10.0266	2.63266
Investment Decision	97	10.30	22.39	17.1396	2.35518
Valid N (listwise)	97				

Source: Data Processed (2022)

Based on table 4.1 it can be seen that all the variables used in this study have a standard deviation value that is smaller than the mean value, so it can be concluded that the variation in the data for each of these variables is almost the same.

Partial hypothesis testing can be seen in the following coefficient table:.

On the table 4.2, it can be seen that at the 5% significance level there are four variables that influence investment decisions, namely financial literacy, level of education, length of business and level of income. The four variables have a p value that is smaller than the alpha value of 5%. This means that changes in the four variables can cause changes in investment decisions. Meanwhile, age and gender variables were found to be unable to influence investment decisions with a p value greater than 5% alpha value. This means that age and gender cannot determine changes in investment decisions.

Table 4.2. Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	4.583	.781		5.865	.000
	Financial Literacy	.101	.018	.346	5.566	.000
	Age	-.025	.060	-.021	-.412	.681
	Level of Education	.279	.079	.247	3.510	.001
	Lenght of Business	.233	.086	.144	2.712	.008
	Gender	.119	.073	.073	1.640	.105
	Level of Income	.306	.061	.342	5.029	.000

a. Dependent Variable: Investment Decision

Source: Data Processed (2022)

Furthermore, the simultaneous testing of all independent variables (financial literacy, age, education, length of business, gender and income) on investment decisions can be seen in table 4.3. the following:

Table 4.3. Descriptive Statistic

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	443.096	6	73.849	74.343	.000[b]
	Residual	89.403	90	.993		
	Total	532.499	96			

a. Dependent Variable: Investment Decision

b. Predictors: (Constant), Level of Income, Gender, Age, Lenght of Business, Financial Literacy, Level of Education

Source: Data Processed (2022)

Based on table 4.3. it can be seen that the simultaneous test of the independent variable on the dependent variable has a p-value of 0.000 which means that the value is smaller than the 5% alpha value. Meanwhile, the acquisition value of Fcount is 74,343, where this value is greater than the Fcount value of 2.199. Based on this, it can be concluded that the variables of financial literacy, age, level of education, length of business, gender and level of income simultaneously have a positive and significant influence on investment decisions.

Furthermore, the coefficient of determination ($R2$) is a coefficient used to determine the level of suitability or accuracy of a value/regression line with the amount of data in the research sample. The coefficient of determination is the ability of the independent variable in influencing changes in the dependent variable, where this ability is seen from the magnitude of the coefficient of determination. The higher the coefficient of determination, the better the ability of the independent variable to influence the dependent variable. The magnitude of the coefficient of determination in this study can be seen in table 4.4.

Table 4.4. Anova

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.912[a]	.832	.821	.99668	1.410

a. Predictors: (Constant), Level of Income, Gender, Age, Lenght of Business, Financial Literacy, Level of Education

b. Dependent Variable: Investment Decision

Source: Data Processed (2022)

Table 4.4. shows that the coefficient of determination (R^2) is 0.832. This means that the influence of the independent variables consisting of financial literacy, age, level of education, gender and level of income on the dependent

variable of investment decisions is 0.832 or 83.2%. Meanwhile, 0.168 or 16.8% is influenced by other variables outside the model in this study.

B. Discussion

➢ *Financial Literacy and Investment Decision*

The results showed that the financial literacy variable had a positive and significant effect on investment decisions. This means that increasing financial literacy can improve investment decisions. People with a good level of knowledge about financial literacy tend to choose the type of investment in financial institutions in the form of banks and non-banks.

The results of this study indicate that the community of MSME actors around the coast of Gorontalo City has a fairly good level of knowledge about financial literacy. The average MSME actors in the Coastal City of Gorontalo know and understand how to manage finances properly and correctly. People prefer to invest in financial institutions. The financial institutions of choice for MSMEs as a place for investment are dominated by financial institutions in the form of banks. Meanwhile, the investment product chosen was dominant in bank products in the form of savings deposits.

The results of this study are in line with research conducted by Al-Tamimi & Kalli (2009) which states that financial literacy can influence investment decisions. This means that the higher a person's knowledge about financial literacy, then it can improve investment decisions.

➢ *Demographics (Age) and Investment Decision*

The results showed that the age variable had no effect on investment decisions. Any age level will not affect investment decisions. This means that adult or adolescent age does not affect a person in determining his investment decision. That is, the more mature a person does not guarantee that the person has good investment decisions.

The results of this study are in line with research conducted by Ikeobi & Arinze (2016) which shows that there is no significant effect of the age variable on investment decisions. Furthermore, the results of this study mean that age does not guarantee that a person's way of thinking is better in determining the type of investment desired. MSME actors in the Coastal City of Gorontalo rely heavily on information and knowledge related to an investment before deciding on the place and investment product to choose.

➢ *Demographics (Level of Education) and Investment Decision*

This study shows that the education level variable has a positive and significant effect on investment decisions. This means that the higher the education level of MSME actors in the Coastal City of Gorontalo, the better investment decisions will be made. The results of this study indicate that a person's ability to decide which type of investment product to choose is largely determined by the level of education. A high level of education indicates the level of knowledge of MSME actors about the benefits that will be obtained in investment and how much risk they must face if the investment fails.

The results of this study support the research conducted by Witra & Subriadi (2021) who found that the level of education greatly influences the board of directors in determining the desired investment path. This means that a person's ability to analyze every investment opportunity and risk is largely determined by his knowledge of it.

➢ *Demographics (Length of Business) and Investment Decision*

The results of the study indicate that the length of business variable affects the investment decisions of MSME actors. This means that a good investment decision will be largely determined by the length of time or not the type of business engaged in by MSME actors. The longer the MSME actors are in their work or business, the better the investment decisions that will be made will also be.

The length of the effort determines the level of readiness of MSME actors in facing the risks that will be faced. So that the investment decisions that will be taken will also be better. The results of this study are different from research conducted by Ikeobi & Arinze (2016) which states that experience or length of business cannot influence investment decisions.

➢ *Demographics (Gender) and Investment Decision*

The results showed that the variable gender or gender can not affect investment decisions. This means that in making investment decisions it is not necessary to pay attention to gender. Men are no better than women when it comes to making investment decisions. On the other hand, women are not better than men in terms of investment decisions.

The selection of an investment product is not determined by the gender of male or female. Both types of gender have the same opportunities and risks in investing. The results of this study support research conducted by Ikeobi & Arinze (2016) which states that gender or gender differences cannot influence investment decisions.

The phenomenon of MSME actors in the Coastal City of Gorontalo does not show any significant differences between men and women in the ownership of investment products in financial institutions. This is evidenced by the absence of one gender domination in terms of ownership of investment products of financial institutions, both in banks and non-banks.

➢ *Demographics (Level of Income) and Investment Decision*

The results of this study indicate that the income level of MSME actors in the Coastal City of Gorontalo affects investment decisions positively and significantly. This means that the amount of funds generated from the type of business of MSME actors becomes a benchmark for increasing or not making investment decisions in financial institutions.

This increase in investment decisions is seen from the increase or not the amount of funds or types of investment products that are in demand and selected. The higher the level of income you have, the more and more varied the number of investments or types of investment products to choose.

➢ *Demographics and Investment Decision*

The results of this study indicate that the income level of MSME actors in the Coastal City of Gorontalo affects investment decisions positively and significantly. This means that the amount of funds generated from the type of business of MSME actors becomes a benchmark for increasing or not making investment decisions in financial institutions.

IV. CONCLUSION AND RECOMENDATION

Increasing the knowledge of MSME actors in the Coastal City of Gorontalo about Financial Literacy, level of education, length of business and level of income in this study proved to be able to influence the investment decisions of MSME actors. This means that the ability of MSME actors in the practice of making decisions on a form of investment is largely determined by the knowledge of MSME actors on the level of profit and risk that will be accepted. The need for education about financial literacy obtained, both through formal and non-formal education as well as experience (long business) and the amount of income owned, must be considered to determine good investment decisions.

Age and gender in this study cannot influence the investment decisions of MSME actors in the Coastal Coast of Gorontalo City. This means that in the practice of investment decisions, the age and gender factors of MSME actors cannot guarantee good investment decision practices.

What are the recommendations that need to be made, there is a need for attention from the government and related parties in good investment decision-making practices by taking into account factors such as financial lietacy, education level, length of business and the amount of income of MSME actors on the Coastal Coast of Gorontalo City.

There needs to be attention from the government and related parties so that they can provide more in-depth education about investment practices in financial institutions, both banks and non-bank financial institutions.

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