

# CHAPTER I

## INTRODUCTION

### 1.1 Background

The individual's ability to manage his personal finances has become an important problem at this time. Individuals must have the knowledge and skills to effectively manage personal financial resources for their welfare. The ability of an individual to make decisions in terms of his personal financial arrangements is called financial literacy. Increasing economic complexity, individual needs, and financial products, an individual must have the financial literacy to manage his personal finances. Financial literacy has grown rapidly over the past few years, several factors that have led to developing financial literacy include low savings interest rates, rising debt levels, and bankruptcy rates, and increasing individual responsibility for making decisions that will affect their economy in the future (Servon & Kaestner, 2008).

Individuals must think about future financial problems, such as health care, retirement planning, education for their children, buying a home for the family, even for entrepreneurial capital. The individual must also think about his personal investment decisions and sources of funds to carry out his personal investment decisions.

Knowledge of finance is very important for an individual, so they are not wrong in making their financial decisions. The low level of knowledge in the field of personal finance will limit a person in making financial decisions (Chen and Volpe, 1998).

Bhushan & Medury (2013) explains financial literacy will help individuals to increase the level of understanding of financial problems that enable them to process financial information and make decisions about personal finance. The purpose of financial literacy is to get a prosperous, quality life and achieve financial freedom in the future.

There is a consensus in the literature that employers are inadequate in financial literacy, and that this inadequacy weakens opportunities for successful business creation and management (Wise, 2013). On the other hand, there are not enough studies on the impact of business and financial education on the output of entrepreneurship. It is therefore emphasized that there is a need to learn more about entrepreneur financial education and how financial problems affect new businesses (Kotzè and Smit, 2008; Karlan and Valdivia, 2010; Wise, 2013). Oseifuah (2010) states that further research is needed to confirm the impact of financial literacy on young entrepreneurs. To answer this need mentioned in the literature, this study aims to determine the relationship between financial literacy and entrepreneurial intentions in students. A student is a person who is taking higher education. They are preparing themselves to take on the world of work. It is undeniable that after they graduate from higher education, they will choose to work as an entrepreneur or entrepreneurship. To become an entrepreneur, they should understand about financial literacy and gather the intention to become entrepreneurs.

The most common definition of entrepreneurial intention is the desire of someone to be involved in business activities at any time during his career. In other words, the intention of entrepreneurship is the intention to build your own business. This

can be defined as building self-employment, that is, being paid employees or paid for in the opposite way of entrepreneurship (Tkachev and Kolvereid, 1999).

The lack of financial literacy at the individual level can lead to management of insufficient financial resources, poor money management, difficulties in making financial decisions, and poor financial performance, resulting in poor financial performance, financial dissatisfaction and deceptive financial behavior (Yew et al., 2017). It is estimated that a lack of financial literacy at the national level can lead to negligence of consumers and investors, increased fraudulent activities and ultimately destabilization of markets that will damage economic growth.

Various surveys or studies have been conducted to determine the level of financial literacy of the Indonesian people. One of them is the 2013 MasterCard financial literacy research on fifteen Asia Pacific countries shown in the following table 1.1.

**Table 1.1**  
**Mastercard Asia Pacific Financial Literacy Index**

Ranking		Score			
		Financial Literacy Index (Overall)	Basic Financial Management	Financial Planning	Investasi
1.	Selandia Baru	74	77	74	63
2.	Singapura	72	73	80	58
3.	Taiwan	71	68	83	63
4.	Australia	71	75	70	63
5.	Hongkong	71	71	72	67
6.	Malaysia	70	67	82	62
7.	Thailand	68	63	81	61

8.	Filipina	68	57	74	58
9.	Myanmar	66	54	88	-
10.	China	66	58	79	68
11.	Bangladesh	63	56	76	60
12.	Vietnam	63	57	80	52
13.	Korea	62	58	78	48
14.	Indonesia	60	56	75	47
15.	India	59	50	76	57

Source: *www.mastercard.com, 2013*

Table 1.1 shows that Indonesia's financial literacy rate is ranked 14th (fourteen) out of a total of 15 (fifteen) countries. This explains that Indonesian people's knowledge of the financial system is below other developing countries in Asia such as Malaysia and Vietnam. Xu and Zia (2012) stated that Indonesia was in the group of countries with the lowest financial understanding.

By knowing that Indonesia's financial literacy rate is still low and it is very important to know and understand financial management. According to ERGUN Sinem, Murat CINKO, Emin AVCI and Mahmut TEKCE (2018: 25) in his research entitled "An Analysis of the Relationship Between Financial Literacy and Entrepreneurial Intention: Evidence from Turkish University Student" states that Financial Literacy does not significantly influence interest entrepreneurship, but there is a significant relationship between the intention of entrepreneurship with behavior and financial attitudes, indicating that individuals with financial attitudes and behaviors have the intention of entrepreneurship. The author intends to conduct research on the relationship of financial literacy with an interest in entrepreneurship in students. So, the researchers tried to do research with the title "Analysis of the Relationship between Financial Literacy and Entrepreneurship Intentions in 2015 Telkom University Students".

## **1.2 Research Question**

Based on the background, the questions in this research are :

- 1.2.1** What is the financial literacy level for Telkom University students in 2015?
- 1.2.2** What is the intention of entrepreneurship at Telkom University students in 2015?
- 1.2.3** Is there a relationship between financial literacy and the intention of entrepreneurship in Telkom University students in 2015?

## **1.3 Research Objectives**

- 1.3.1** Knowing the level of financial literacy of Telkom University students in 2015.
- 1.3.2** Knowing the intention of entrepreneurship at Telkom University students in 2015.
- 1.3.3** Knowing the relationship between the level of financial literacy and entrepreneurship intentions in Telkom University students in 2015.

## **1.4 Benefits of Research**

### **1.4.1 Theoretical Benefits**

Theoretically, this study is expected to be able to contribute ideas for scientific development about financial literacy and entrepreneurship intentions and can improve personal financial behavior, especially among students so that they can have or build entrepreneurial intentions. This research is also expected to be used as a reference for further research that examines financial literacy and entrepreneurial intentions in students.

### **1.4.2 Practical Benefits**

This research is expected to be used as an evaluation related to the improvement of financial literacy and entrepreneurship intentions for students and can provide consideration or input in the continuation of the intelligent financial generation program (financial education) that is being campaigned by the Financial Services Authority

(OJK). This research is also expected to be useful for the community and other researchers as a reference for further research that addresses the same topic.

## **1.5 Scope of Research**

### **1.5.1 Research Variables**

The independent variables of this study are financial literacy and entrepreneurial intentions with the dependent variable are factors that influence financial literacy such as gender, place of residence, index cumulative assessment (GPA), parents' education, and parents' income.

### **1.5.2 Location and Object of Research**

This research was conducted in Bandung City with the object of this research being Telkom University students in 2015.

### **1.5.3 Research Period**

When this study was targeted for approximately 6 months in 2018

## **1.6 Systematics of Final Project Writing**

### **1.6.1 Chapter I Introduction**

Chapter I is an introduction as the basis and reference for why this research was conducted. The introduction consists of background problems, formulation of the problem, objectives, and benefits of the study and the systematic scripting.

### **1.6.2 CHAPTER II Theoretical Basis**

This chapter explains theories that are relevant to research. Theory as a basis for compiling hypotheses. In addition, this chapter also outlines previous studies that are relevant to the object of research. The existence of theory and previous research facilitate the preparation of hypotheses.

### **1.6.3 CHAPTER III Research Methods**

This chapter discusses the type and nature of research, population, and sample, data collection methods, definition and measurement of research variables and data analysis techniques.

### **1.6.4 CHAPTER IV Results and Discussion**

This chapter discusses the results of data processing analysis and discussion of the effect of independent variables on the dependent variable studied.

### **1.6.5 CHAPTER V Conclusion and Suggestions**

This chapter is a conclusion of the results of the research discussed earlier, the limitations of the research and suggestions from the results of data analysis relating to research.