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Determination of Propensity to Indebtedness

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Abstract

The purpose of this study was to determine the determinants that influence the propensity to indebtedness in the millennial generation who live in Jakarta. This study took a sample of 200 respondents from the millennial generation and who live in the city of Jakarta who were collected through a questionnaire using a convenience sampling technique. The data that has been successfully collected is then processed using the PLS-SEM data analysis method. The research design uses a quantitative method with a descriptive approach. This study uses a structural equation model (SEM) with SmartPLS Version 3.3.2 software as a data analysis tool. The results of this study illustrate that there is a negative effect of financial literacy on the propensity to indebtedness. Materialism has a positive effect on the propensity to indebtedness. Meanwhile, risk perception has a negative effect on the propensity to indebtedness and money value has no effect on the propensity to indebtedness.

Keywords: *Money Value; Financial Literacy; Materialism; Risk Perception; Propensity to Indebtedness*

Introduction

According to Vitt, (2004) "The behavior of propensity to indebtedness is not only caused by economic factors, but can also be triggered by psychological factors or a person's behavior." According to Ottaviani & Vandone, (2010) The emotional response possessed by an individual can be a factor in making that individual's financial decision. "Based on research from Muzafari, Mowlaie and Bahmani (2016), "individuals who have debt will have negative emotions. so that it has a high level of risk taking and causes a desire from within the individual for unplanned expenses by carrying out the propensity to indebtedness.

Materialism behavior is related to individual consumption behavior. Individuals with high materialism also tend to have a higher social level, so to meet existing consumption demands they tend to have a propensity to indebtedness. According to Ponchio, (2006), "High levels of materialism affect a person's propensity to indebtedness behavior." According to Richins (1992), "materialism is a behavior that tends to lead an individual to borrowing money, and excessive use of credit." Likewise the results of research by Rahman et al. (2020) "shows that there is a significant positive effect of materialism on the propensity to indebtedness." This happens because someone with a high level of materialism is driven by the desire to own luxury goods, giving rise to the belief that buying goods on credit is a natural thing. According to Tatzel, (2002), "A person with a low level of materialism can reduce or control the propensity to indebtedness behavior in buying luxury goods." However, the results of research from Potrich and Vieira (2018) "materialism does not affect the propensity to indebtedness."

According to Rahman, et al. 2020 "The risk perception that each person has influenced the propensity to indebtedness behavior. Risk perception has a negative influence on the propensity to indebtedness." According to Rahman, et al. (2020) "A high-risk perception tends to result in a lower propensity to indebtedness behavior. And vice versa, if a person's risk perception is low, it tends to produce behavior that is not careful in making financial decisions so that it has a higher propensity to indebtedness. The millennial generation in Indonesia, especially from the middle class, tends to have a bold and aggressive attitude in taking risks, clearly different from the previous generation who have a less aggressive attitude. Even though in practice risk perception has an influence on the propensity to indebtedness, statistically to the study by Azuma et al. (2018) "there is no significant effect of risk perception on the propensity to indebtedness."

Another factor that affects the propensity to indebtedness is the money value. According to Doosoti & Karampour, (2017), "There is an influence on the money value on the propensity to indebtedness behavior." People who are used to classifying money as a measure of power and social status tend to do propensity to indebtedness. However, the results of research from Flores and Vieira (2014) "did not find a significant effect of money value on the propensity to indebtedness behavior." A person's perception of money or money value produces positive and negative perceptions. On the positive dimension, a person tends to feel pleasure, stability, and prestige when he has money. Meanwhile, on the negative side, money creates social inequality, domination, conflict, and worry. The millennial generation has a habit where they cannot be separated from gadgets, and are also active on social media. On social media, the tendency to show money or possessions is often encountered, this behavior is solely aimed at being known or recognized by the public.

The theory underlying this research is the Theory of Planned Behavior (TPB) and developed from the Theory of Reasoned Action (TPA) conducted by Ajzen and Fishbein in 1985. The previous Theory of Reasoned Action (TPA) explained that behavior that is carried out by a person is driven by individual intentions. , and influenced by attitude factors and subjective norms. The theory of Reasoned Action only applies to behavior under the control of a person but does not apply if the behavior is out of control. According to Ajzen (1991), "Theory of Planned Behavior consists of the first personal attitudes. Personal attitudes are a person's attitude towards certain behaviors. Second, subjective norms are considerations about how we view other people's ideas about certain behaviors. And finally, perceived behavioral control, namely the extent to which we can control our behavior." According to Achmat, (2010), "Perceived behavioral control is an additional factor that distinguishes Theory of Planned Behavior from previous theories because this factor can influence a person's behavior. This third factor is perceived behavioral control where an individual has beliefs about something and how strongly it influences in supporting or inhibiting his behavior. Meanwhile, Intention is an indication of the readiness of an individual in carrying out a behavior. The intention here determines or causes the emergence of behavior that is formed from personal attitudes, subjective norms, and perceived behavioral control.

The purpose of this study is to determine the determinants that influence the propensity to indebtedness, namely money value, financial literacy, materialism, and risk perception. The results of the research contribute to the development of financial behavior science (Financial behavior)

Methods

The population in this study are all millennials who live in the city of Jakarta. The sample technique chosen in this study is convenience sampling, the number of samples to be studied is 200 people. This study will use primary data collected through questionnaires and distributed to millennials who are domiciled in the city of Jakarta.

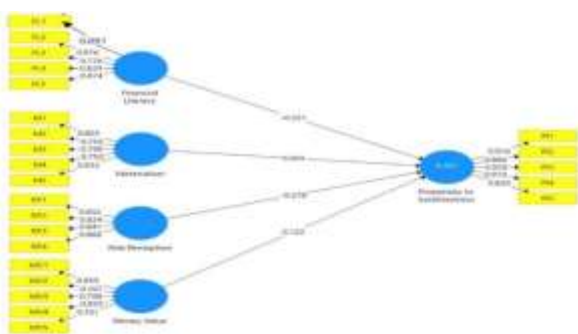
This study used the Partial Least Square-Structural Equation Modeling (PLS-SEM) data analysis tool. PLS-SEM version 3.0. The stages are as follows:

1) The measurement model (Outer Model) is a theoretical path model that contains indicators and their relationship to constructs (Hair et al., 2019). The measurement design in this study aims to assess the validity and reliability of the model
2) The structural model (Inner Model) is used to describe the overall

Result

The Measurement Model (Outer Model) and the Inner Model

The structural model in this study is as follows:



Variable	***Path-coefficient***	**Description**
Financial literacy Propensity to Indebtedness	-0,221	Negatives
Materialism Propensity to Indebtedness	0,203	Positif
Risk Perception Propensity to Indebtedness	-0,278	Negatives
Money Value Propensity to Indebtedness	0,122	Positif

The table above shows that the variables financial literacy, materialism, risk perception have a small effect on the propensity to indebtedness because they have an f2 value greater than 0.02. Meanwhile, the money value variable has a small effect on the propensity to indebtedness because the f2 value is smaller than 0.02

Table 1.3 . Coefficient of Determination (R-square)

Variable	***R-square***
Propensity to Indebtedness	0,307

Based on the results of the measurement of the coefficient of determination (R-square) that has been presented, the value of the coefficient of determination (R-square) on the propensity to indebtedness variable is 0.307. This shows that the propensity to indebtedness variable can be explained by financial literacy, materialism, risk perception, and money value variables of 30.7%, the remaining 69.3% is explained by other variables.

Table 1.4.Result of Effect Size Analysis (f2)

Variabel	**f^2**	**Description**
Financial literacy	0,066	Small effect
Materialism	0,038	Small effect
Risk Perception	0,085	Small effect
Money Value	0,016	Small effect

Variabel	***t-statistic***	***p-values***	**Description**
Financial literacy Propensity to Indebtedness	4,331	0,000	Not rejected
Materialism Propensity to Indebtedness	2,440	0,015	Not rejected
Risk Perception Propensity to Indebtedness	3,872	0,000	Not rejected
Money Value Propensity to Indebtedness	1,913	0,056	rejected

First Hypothesis Test

The results of testing the first hypothesis based on Table 4.16, show that the financial literacy variable has a negative effect on the propensity to indebtedness because it has a t-statistic value of 4.331 and a p-value of 0.000. Thus, it can be concluded that the results of the first hypothesis test (H1) are not rejected. This indicates that the higher the financial literacy one has, the lower the propensity to indebtedness behavior. Individuals who do not have good financial literacy tend to find it easier to take debt products offered on the market and eventually have financial problems and face the risk of default. Financial literacy is the basis for someone to choose to have debt or not, so that it can help an individual to make an informed decision. The financial literacy indicator that has the most influence on the propensity to indebtedness is "I analyze my personal finances before making a big purchase". Thus, it shows that the respondents in this study first considered the purchasing decisions they would make.

Second Hypothesis Test

Based on the table above, the second hypothesis (H2) produces a t-statistic value of 2.440 and a p-value of 0.015. So, it can be concluded that the second hypothesis (H2) is not rejected. This means that the materialism variable has a positive influence on the propensity to indebtedness. The results of this study are consistent with research from Flores and Viera (2014), Azma (2017), Rahman et al. (2019), Patulak et al. (2020), as well as research by Wahono and Pertiwi (2020). The results of this study indicate that materialism has a positive effect on the propensity to indebtedness. In this study, the indicator of materialism that has the most influence on the propensity to indebtedness is "my life would be much better if I had things that I don't currently have". The higher a person's materialism, the higher the propensity to indebtedness behavior. Materialism is a determining factor in debt, individuals with high materialism tend to be unable to resist the desire to buy luxury items. Thus, the individual is willing to owe for the desired item.

Third Hypothesis Test

The table above shows the results of testing the third hypothesis (H3) which has a t-statistic value of 3.872 and a p-value of 0.000. Thus, it is proven that the risk perception variable has a negative effect on the propensity to indebtedness and the third hypothesis (H3) is not rejected. The results of this study are in accordance with the results of the studies of Flores and Viera (2014), Silvia (2020), where risk perception consistently influences negative on propensity to indebtedness. A high risk perception makes an individual more careful in taking risky actions, thus making the propensity to indebtedness low. Individuals with high risk perception individuals will be more careful in taking risky actions so they don't engage in debt behavior, while individuals with low risk perception tend not to think long about the risks they will face after committing debt behavior. Respondents in this study had a high level of risk perception, the risk perception indicator that most influenced the propensity to indebtedness was "I lend most of my personal income to friends or relatives."

Fourth Hypothesis Test

The results of testing the fourth hypothesis (H4) presented in Table 4.16 show a t-statistic value of 1.913 and a p-value of 0.056 so that it can be concluded that the fourth hypothesis (H4) is rejected. Therefore, based on the results of hypothesis testing, it can be concluded that there is no effect of money value on the propensity to indebtedness.

The results of this study are in contrast to previous research conducted by Doosoti and Karampour (2017) which showed that money value has a significantly positive effect on propensity to indebtedness. However, the results of this study are in line with the research of Flores and Viera (2017) which states that the money value variable has no significant effect on the propensity to indebtedness. This may be because individuals who value the value of money usually tend to save. The money value that an individual has helps them to spend money only for pre-planned interests so that it does not make individuals have a tendency to engage in debt behavior.

Conclusion

Based on the results of the data analysis that has been done, it can be concluded that:

1) There is a negative effect of financial literacy on the propensity to indebtedness.
2) There is a positive effect of materialism on the propensity to indebtedness.
3) There is a negative effect of risk perception on the propensity to indebtedness.
4) There is no positive effect of money value on propensity to indebtedness.

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