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IMPLICATIONS OF INDIVIDUAL FACTORS ON INVESTMENT INTENTION WITH RISK PREFERENCE AS AN INTERVENING VARIABLE : A CASE STUDY OF MSMEs IN BONE

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Abstract : The purpose of this paper is to examine the direct effect between financial literacy and locus of control on investment intention and the indirect effect between financial literacy and locus of control on investment intention through risk preferences. The study uses quantitative approach where in questionnaire based survey was done to collect responses from entrepreneurs (218 usable responses) in Bone. SPSS and Sobel Test have been used to establish the hypothesized relationship between the constructs. The results obtained that financial literacy and locus of control have a positive and significant effect on investment intention. While risk preference can be a mediating variable between financial literacy and locus of control of investment intention.

INTRODUCTION :

The MSMEs have a big role in advancing the nation's economy becomes important to know the factor that influencing investment decision making. During this time the general thought or public opinion is that entrepreneurs must get capital injections from investors who have large capital to develop their businesses. Badan Koordinasi Penanaman Modal (BKPM) establishes six points as an investment policy direction where between the two points is to strengthen MSMEs investment including encouraging large investments to partner with MSMEs. This is encouraged so that entrepreneurs can stimulate national economic growth, open employment opportunities so that people have purchasing power, a smooth cycle of money circulation, increased community activity and will oversee MSMEs in grade. However, it cannot be denied this has a disadvantage where the result of investment business profits will come out of Indonesia, the opportunity for local entrepreneurs to become big entrepreneurs is taken by other nations.

Therefore, entrepreneurs are expected to become investors and invest in each other so that MSMEs can become masters in their own country. Thus, MSMEs are able to dominate the market and the economy. The realization of this must be supported by understanding and knowledge qualified for entrepreneurs to increasing their business profits in order to set aside the results of their efforts to invest. From the beginning, the reason for MSMEs being unable to manage their businesses is because knowledge of managing businesses is limited, only to getting profit to play in their capital. This knowledge becomes important with the era of the digital economy that requires the broad ability and understanding of the objectives, functions and benefits of financial aspects for the community, especially entrepreneurs so that in the future they can decide on the right steps in managing their finances. Moreover, entrepreneurs that often come into contact with the financing aspects of pioneering or developing their businesses, often becoming victims of crime and fraud cases.

In this study, psychological variables are included to explain the factors that influence individual financial behavior, namely locus of control (Herleni & Tasman, 2019). Locus of control is the individual's beliefs and perceptions of everything that affects him. How big is the effort and the motivation of the entrepreneurs in trying to invest can be seen in the locus of control.

Research on understanding financial risk tolerance in shaping behavior has received much attention (Grable, 2016). Attitudes towards risk are important determinants of investment decisions so estimating an individual's tendency to take risks is considered a vital problem (Bogan, Just, & Dev, 2013). Most entrepreneurs are afraid to take risks to invest because they are afraid of failing and in the end the business will be in a stagnant condition or in the end it will not run smoothly.

Finally, this research focuses on financial literacy and locus of control in influencing the investment intentions of MSMEs with risk preference as an intervening variable.

LITERATURE REVIEW

Risk Preference

Aren & Nur (2016) states that human perception in general about risk is often equated with loss. But in reality, risk contains a function of profits and losses. Risk has a form of uncertainty about what will happen in the future. Risk is mentioned as uncertainty which can give two impacts, where positive impact, in this case is the profit or negative impact is loss on one or more objectives. Weber and Hsee define risk preferences as labels to describe a person's choice when faced with two choices with expected values that are balanced but differ in dimensions that are assumed to influence the risk of choices (Tawil, 2018).

Each individual has a different risk preferences. Risk preferences will affect financial decision making. Mardiyanto (2009) classifies investor attitudes towards risk which is divided into three namely:

1. Risk averter or risk averse, the attitude of investors or decision makers who tend to fear loss. Individuals avoid risks and if they consider taking risks they hope the returns will also increase.
2. Risk indifferent or moderate risk, which is the attitude of investors or decision makers that are neutral towards risk. Individuals will accept additional risks without hoping for increased returns.
3. Risk takers or risk seekers or risk appetites, namely the attitude of investors who like risk and will take risks even if the returns obtained are reduced. This type of investor has the notion that if you want to get large profits, the risk taken must also be large.

Financial Literacy

The Organization for Economic Co-Operation and Development or OECD (2016) defines financial literacy as knowledge and understanding of financial concepts and risks, skills, motivations and beliefs that are applied in effective financial decision making which are expected to improve the financial well-being of individuals and the community and contribute to economic development. The SNLKI 2013 issued by OJK said that individuals are said to be well literate if they have knowledge and beliefs about financial institutions, products and services and have skills in knowing the features, benefits, risks, rights and obligations of the financial products and services.

As according to Hussain and Sajjad (2016), financial literacy is a concept of sources of income and how someone uses it effectively and efficiently including in terms of spending it and storing it for future needs. Whereas Remund (2010) defines financial literacy as a concept where individuals with their abilities and self-confidence are able to manage their own finances. The management referred in this case is short-term decision making and long-term financial planning by taking into account external factors such as events and changes in economic conditions.

Thus it can be concluded that financial literacy is an ability and knowledge that must be possessed by individuals regarding financial products, institutions and services to manage their finances effectively and efficiently with a good understanding of financial concepts and risks, skills, motivations and beliefs so that their financial condition in the future can be more secure so that it will improve individual welfare.

H1 : Financial literacy influences risk preferences

Locus Of Control

Locus of control was first introduced by Julian B. Rotter (Pervind in Smet, 1994). Rotter provides the definition of locus of control as an individual's perception of all sources that control the events that occur in his life. In many subsequent studies such as in Salamanca et al (2016), Kesavayuth et al (2018), Galvin et al (2018), Herleni & Tasman (2019), and Thompson (2020) suggest that internalities and externalities should be considered and measured as constructs separated. In this study, it is focused on internal locus of control where a number of studies show variations in which internal locus of control can highlight individual thoughts in developing their business as a business actor.

Kesavayuth et al (2018) explained that internal locus of control describes an individual in accepting a causal relationship between his own behavior and the results that occur. Individuals with high locus of control (internal) believe that the events that occur around them are the result of their efforts and attitudes in acting.

H2 : Locus of control influences risk preferences

Investment Intention

Intention is defined as the will, desire or liking. Khairani (2017) defines intention as desires on objects that will cause an activity. Actions or activities carried out aiming to fulfill desires on objects that cause intention. One of example is the desire to find out about a type of investment or by taking the time to study and try to apply the investment in their daily lives. The Timothi (2016) describes intention as a tendency to settle on a subject that causes a sense of intention and pleasure in working on it.

Further explained that intention can also come from experience. One of the factors that generate intention is the inner urge factor, which is a stimulus that comes from the environment or scope in accordance with the wants or needs of a person. As is the case in the business environment of entrepreneurs. In daily, it is always faced with a world that revolves around a bit or plenteous of profit or a big or small loss. These two sides will provide an incentive for entrepreneurs to look for other alternatives to create income stability in their business. One of them is to be intentioned in investing.

H3: Financial literacy influences investment intentions

H4: Locus of control influences investment intention

H5: Risk preferences mediates the relationship between financial literacy and investment intention

H6: Risk preferences mediates the relationship between locus of control and investment intention

H7: Risk preference influences investment intention

METHODOLOGY

This type of research is quantitative research using path analysis. The variables used are financial literacy and locus of control as the independent variable and investment intention as the dependent variable. While risk preference is an intervening variable. To detect the direct effect of the relationship between exogenous variables on endogen variables is used significant values of variables with a significant level of 0.05, while the detection of indirect effects is used by multiple tests. The calculation of the coefficient of direct influence is done by looking at the standard coefficient values of each relationship. While the coefficient of indirect effect is done by multiplying the coefficient of direct influence on the path traversed. In the path analysis can also be calculated with a total effect by adding up the coefficient of direct influence and the coefficient of indirect effect (Sarwono, 2006)

The research sample was 218 entrepreneurs in Bone. The type of data used in this study is primary data. Data taken directly from the sample studied using survey and observations methods. The equation of the path analysis model of this research is:

$$Y_1 = \rho_{Y1X1}X_1 + \rho_{Y1X2}X_2 + \varepsilon_1$$

$$Y_2 = \rho_{Y2X1}X_1 + \rho_{Y2X2}X_2 + \rho_{Y2Y1}Y_1 + \varepsilon_2$$

With:

Y_1= Risk Preference
Y_2= Intention Investment
X_1= Financial Literacy
X_2= *Locus Of Control*
ε_{12}= *Error Terms*

RESULTS

The description of the respondent's data for the minimum and maximum values can be seen clearly in the table below where the value at standard deviation is smaller than the mean value for all variables so that it can be considered a good representation of the overall data in the study.

Table 1 Descriptive Statistics

Descriptive Statistics

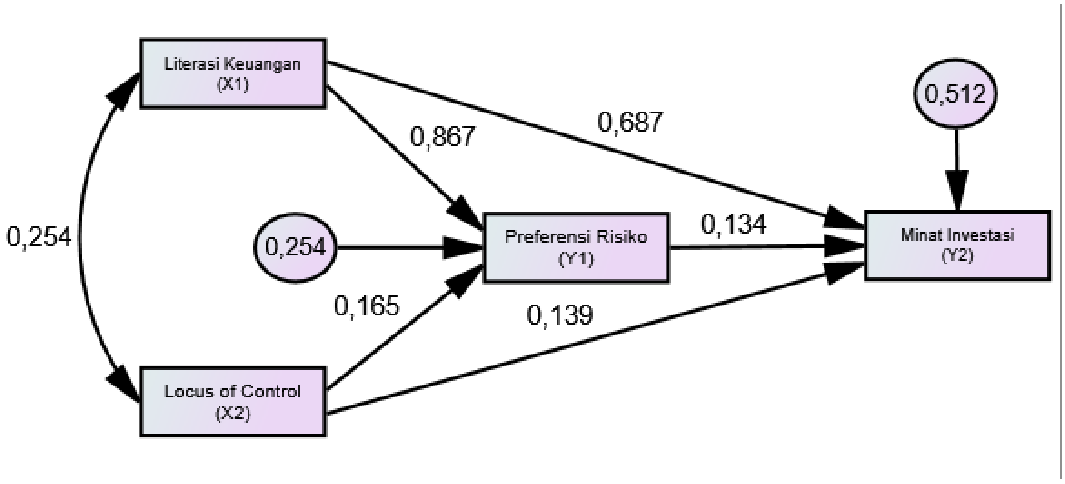
	N	Minimum	Maximum	Mean	Std. Deviation
X1	218	2.65	7.00	5.5648	.86780
X2	218	2.30	7.00	5.1216	.65791
Y1	218	2.20	7.00	5.2468	1.33310
Y2	218	2.11	7.00	5.5950	.87178
Valid N (listwise)	218				

Source: Primary data (2020)

In this study, using the intervening variable as a variable between the independent variable and the dependent variable. The intervening variable is the risk preference variable, the independent variable is financial literacy and locus of control, while the dependent variable is investment intention. The calculation of the path coefficient is carried out to see how much direct and indirect relationship is between the research variables.

Below is a summary of the direct effects of each variable:

Figure 1 Variable Statistic Model



Based data on the above, it can be concluded the direct effect of each variable that:

1. Variable X1 (Financial Literacy) has a magnitude of influence which is 0.867 to the variable Y1 (Risk Preference) so that both of these variables have a direct influence.
2. Variable X1 (Financial Literacy) to Y2 (Investment Intention) shows the amount of direct influence which is 0.687 and indirect effect through the variable Y1 (Risk Preference) obtained by multiplying the coefficient $X_1 \rightarrow \mathrm{Y}_1 \rightarrow \mathrm{Y}_2 = (\rho_{Y1X1})(\rho_{Y2Y1})$ then (0.867 x 0.134) so we get a value which is 0.116. The total effect of the formed path is 0.983 calculated based on the sum of the values of the direct effect X1 on Y2 with the indirect effect X1 on Y2 through Y1.
3. Variable X2 (Locus of control) has a direct influence on the Y1 variable (Risk Preference) which is 0.165. The magnitude of the direct relationship between variables X2 and Y2 is obtained at 0.139 while the indirect relationship formed between $X_2 \rightarrow \mathrm{Y}_1 \rightarrow \mathrm{Y}_2$ obtained by multiplying $(\rho_{Y1X2})(\rho_{Y2Y1})$ or (0.165 x 0.134) shows a value which is 0.022. The total effect of the path formed is 0.187 calculated based on the sum of the values of the direct influence X2 on Y2 with the indirect effect X2 on Y2 through Y1.

As for the testing tool on the indirect effect of using sobel tests. Criteria for decision making in this analysis is to look at the ρ value or probability value with the condition that the value of ρ <0.05 indicates that there is an indirect significant effect through intervening variables.

Figure 2 Detection Test for the Effect of Equation Model 1

Input:			Test statistic:	Std. Error:	p-value:
a	0.867	Sobel test:	4.54234095	0.02557668	0.00000556
b	0.134	Aroian test:	4.53876838	0.02559681	0.00000566
s_a	0.035	Goodman test:	4.54592197	0.02555653	0.00000547
s_b	0.029	Reset all	Calculate		

Source: Sobel test calculator's online calculation output

Based on the value of ρ obtained from the above calculation is 0.00000556 which is smaller than 0.05. This means that there is a significant indirect effect between variables X1 on Y2 through Y1 where ρ <0.05 (0.00000556 <0.05)

Figure 3 Detection Test for the Effect of Equation Model 2

Input:			Test statistic:	Std. Error:	p-value:
a	0.165	Sobel test:	2.54869816	0.00867502	0.01081258
b	0.134	Aroian test:	2.50815922	0.00881523	0.0121362
s_a	0.054	Goodman test:	2.59126852	0.0085325	0.00956228
s_b	0.029	Reset all	Calculate		

Source: Sobel test calculator's online calculation output

Based on the value of ρ obtained from the above calculation is equal to 0.0121362 which is smaller than 0.05. This means that there is a significant indirect effect between variables X2 on Y2 through Y1 where ρ <0.05 (0.0121362 <0.05).

DISCUSSION

This study examines the direct effect of financial literacy and locus of control on investment intention and examines the indirect effect of financial literacy and locus of control on investment intention through risk preference. The results of the analysis on the effect of financial literacy on investment intention indicate a positively significant. Financial literacy will influence the intention of entrepreneurs in investing by encouraging them to think long-term financial plans. Understanding financial literacy provides another way for entrepreneurs to get other sources of income besides their business results. As Awais et al (2016) stated that someone who has high financial literacy tends to be smarter when it comes to making investment decisions. This is because the selected knowledge and skills financial are more prioritized in the long term. This is made clear by the results of research which found that understanding financial literacy creates a desire to enter the world of investment.

Meanwhile, the relationship between locus of control and investment intention shows a positively significant. The results of the study found that a high locus of control would have an effect on investment intention, where internal locus of control is one of the things that can measure how much an individual wants to invest. Someone with internal locus of control will tend to have high motivation to be able to prove themselves that their business can be successful. Someone with internal locus of control will tend to choose the type of investment that generates high returns. The results of further research found that individuals prefer the type of investment in real assets rather than equity assets. This is because individuals with high locus of control are likely to perceive equity asset investment as something they cannot control because there are many external factors that can affect one's profit and loss in playing stocks.

The results of the indirect effect test show that risk preference can be an intervening variable between financial literacy and locus of control on investment interest. The results of the study found that respondents who have high financial literacy will have the desire to invest considering risk preferences in choosing a decision to invest. In research, low risk preference makes entrepreneurs to careful in choosing types of investment. The results of this study support that, where entrepreneurs prefer to invest in real assets rather than equity assets, where real assets have less risk than equity assets. This could be because the knowledge of the risks faced is not ready to bear the money lost in investing. However, even higher knowledge can make the investment decision process more complicated.

Likewise with risk preference in correlate the locus of control and investment intention. The results showed that high locus of control would prefer to be careful about the risks to be taken. This can be due to inadequate knowledge of risks associated with being prepared to take risks from something that cannot be controlled. This is supported by Dinç Aydemir & Aren (2017) in their research which found that individuals who have low locus of control indicate that individuals will prefer risky investments. This is because they do not associate the results obtained with themselves or they feel they have no personal responsibility in any way. Individuals with high locus of control have a higher level of responsibility so they tend to blame themselves if something doesn't work. It made them choose to be careful in taking risks.

CONCLUSION

Financial literacy and locus of control show a direct influence on risk preferences and investment intentions. The risk preferences mediates financial literacy and locus of control to investment intention.

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