



# **The influence of Parent's Socio-Economic Status, Family Financial Governance, Financial Learning in Higher Education on Financial Literacy, Lifestyle and Human Capital Investment of Economics and Business Students in Batam City, Indonesia**

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## **ABSTRACT**

The capacity of human capital, today has become a strategic issue in achieving prosperity of nations. Some of nation which has a high or good level at human capital index will be have a significantly impact on achieving prosperity on a nation's society, including Indonesia and specially Batam city which has been becoming part of young province in Indonesia and close to Singapore as a central of economics world. Batam must be ready to increase and prepare all of resources which it can be increasing personal prosperity and increasing the goodness of life in the future by using investing in human capital. This research has mainly goals to demonstrate and analyze the influence of parent's socio-economic status, family financial governance, financial learning in higher education, on financial literacy, lifestyle and human capital investment. The population in this research was 1.233 respondent of economics and business students in Batam, Riau Province in Indonesia, and the sample numbered 302 students. Analyzing data in this research was using SEM (Structural Equation Modeling) with AMOS ver. 20. The result of discussion can be concluded that parent's socio-economic did not effects significantly to financial literacy, parent's socio-economic effects significantly to lifestyle, parent's socio-economic effects significantly to human capital investment. Family financial governance effects significantly to financial literacy, Family financial governance did not effects significantly to lifestyle, Family financial governance effects significantly to human capital investment. Financial learning in higher education effects significantly to financial literacy, financial learning in higher education did not effects significantly to lifestyle, financial learning in higher education effects significantly to human capital investment. Financial literacy effects significantly to lifestyle, financial literacy effects significantly to human capital investment. Lifestyle effects significantly to human capital investment.

**Keywords:** parent's socio-economic status, family financial governance, financial learning in higher education, financial literacy, lifestyle, and human capital investment.

## INTRODUCTION

Investment in human capital means that the process of acquiring knowledge and skills through education is not merely a form of consumption, but is an investment activity that is applied to the human person itself. In 1966 Bawman introduced a conception of the human investment revolution in economic thought. The idea at that time greatly influenced the mindset of the government, planners, international institutions, as well as educators throughout the world in planning and developing human resources (Lutz, 2008: 558). As a result, there has been an escalation in the demand for education in developing countries which is characterized by the massiveness of education to date (Singh, 1986; 53).

The investment theory of human capital is a school of thought which assumes that humans are a capital as other forms of capital such as; machinery, money, land and technology that determine the level of ability to increase national income. Through self-investment, one can expand alternatives to choose a profession, work or other activities to improve their welfare (Duc Dai, 2017; 54). The five variables that can initiate the human capital investment process can be classified into five, namely: family socio-economic status, family financial governance, financial learning in college, financial literacy, and lifestyle.

Batam as an area that is in the sovereignty of the Republic of Indonesia, has a strategic location and close to Singapore which is a gateway to world trade traffic. As can be noted, Singapore is a country that is so advanced in almost all aspects of life. A country that is a reference for many nations with all the advantages of existing governance. Modernity developed in the country has become a benchmarking for many other countries including Indonesia. Batam as the area closest to Singapore certainly needs to push itself to be able to keep up with the pace and development of the neighboring country.

The position of the Batam region as the closest entrance to the outside world for goods from abroad requires that the Batam area needs to have plenty of adequate preparation in order to synergize with Singapore so that the relations formed can bring optimum welfare effects, moreover Batam has become a trading area free. This requires qualified resources and is able to work well in many fields that are needed. To spur it all, it is necessary to increase the capacity of human capital in the region.

Currently in the city of Batam there are more than 10 institutions of Higher Education in order to accelerate and provide support for increasing human capital in the future, through education investment in human capital (Human Capital Investment) can be created, which in turn can determine the achievement of individual goals, groups and ultimately the achievement of national welfare. Through investment in human capital, one can expand alternatives to choose professions, jobs or other activities to improve their welfare (Duc Dai, 2017; 54). The five variables that can initiate the human capital investment process can be classified into five, namely: parent's socio-economic status, family financial governance, financial learning in college (higher education), financial literacy, and lifestyle.

Higher education in its role as a disseminator of financial literacy is inseparable for a student, because financial literacy is a useful tool for making good financial decisions, but the reality in various countries still shows relatively low levels. A person needs to have high financial knowledge, because low financial knowledge will lead to the making of a wrong financial plan, and ultimately unable to achieve prosperity at the age of no longer productive. Evidence in the field suggests that financial difficulties for a person are not merely a function of low income,

facts show financial difficulties can also arise if there are errors in financial management, such as misuse of credit, and lack of good financial planning and a materialistic lifestyle.

The achievement of financial well-being which in the end is also expected to achieve long-term goals is not only correlated with financial literacy, but it is also influenced by parent or family socio-economic factors and values that are adopted as guidelines and economic views of families or groups in certain regions (Willian, Rebeck., MacDonald., 2010: 76). The family as the smallest community unit is one of the significant learning places for the development of children's character from childhood to adulthood. In the learning process that child will be introduced to various things that are useful for him in the future. With knowledge and understanding capital instilled by parents, the child will be strengthened to realize prosperity in the future. The value of economic value instilled by parents is the value of not always being deficient, but as much as possible to always be in sufficiency. How the parents allocate every dollar that is available to the family is a real lesson that is the value that is adopted by children.

The results of a survey conducted by OJK (Financial Services Authority in Indonesia) found the level of financial literacy in 2016 showed that the financial literacy rate of the Indonesian people had increased from the previous 21.8% in 2013 to 29.7% in 2016. The same thing also happened at the level of public financial inclusion Indonesia, which in 2013 amounted to 59.7% to 67.8% in 2016 (National Survey on Financial Literacy and Inclusion, OJK; 2016; 12). The results of this survey can be used as material to evaluate the efficiency and effectiveness of financial literacy and financial inclusion programs in the community so that the acceleration of public welfare can be realized.

The data on this research has a goal to analyze the effects of: 1) parents' socio-economic status on financial literacy. 2) Family financial management of financial literacy. 3) financial learning in higher education on financial literacy. 4) Parents' socio-economic status towards lifestyle. 5) Family financial management of lifestyle. 6) Financial learning in higher education on lifestyle. 7) Parental socio-economic status of human capital investment. 8) Family financial management of human capital investment. 9) Learning in higher education on human capital investment. 10) Financial literacy on lifestyle. 11) financial literacy towards human capital investment. 12) Lifestyle towards human capital investment.

## LITERATURE REVIEW

### Parent's Socio Economic Status

Common Dictionary of Indonesian Language gives an understanding of status as a state, position of an individual, or object. In the economic sense a person's status means the position of people in a group or society. Literally status can mean a state in a hierarchy that shows rights and obligations in the ideal number of roles in a container (Poerwadarminta. 1993: 32). Based on the understanding and reference of several sources regarding the understanding of parents' socio-economic status, a synthesis can be drawn that parents' socio-economic status is a condition, position and position of parents or individuals that can be seen from income, education, rank and influence for a group others in the community and their ability to meet the daily needs of the income earned.

### Family Financial Governance

Family financial governance can be done by parents so that children in the future have good financial management skills. Houston (2009; 32) states that financial governance in the family is an activity taught by parents to their children in order to provide financial knowledge in the family environment. This learning can be done with examples from the parents themselves. In

his book Senduk (2010) suggests that a child can be taught to have good money management skills

### **Financial Learning at Higher Education**

The nature of learning is an activities consciously and systematically providing knowledge and understanding and education in an interaction process in order to achieve the expected goals (Arikunto, 2008: 19). The learning process experienced by almost every individual is different in the absorption that is accepted even though it is obtained from the same learning source. Each individual in its development in a hierarchy can climb the ladder of the learning process starting from elementary, middle and general, as well as higher education. Based on the understanding and reference of several sources about the notion of financial learning in higher education, a synthesis of the meaning of financial learning in higher education can be taken is an activity or process that continues in the campus or school environment where there is interaction between educators and students in financial material learning in the form of a curriculum that is planned, implemented, evaluated not only includes education but also training to prepare students to have changes in attitudes and behavior in financial matters in the present and future.

### **Financial Literacy**

Financial literacy is a person's ability to manage existing assets to achieve the expected goals. Huston (Huston;2010: 17) states that financial knowledge is an inseparable dimension of financial literacy, but has not been able to describe financial intelligence. Financial literacy occurs when an individual is competent and has a set of skills and abilities that make the individual able to utilize existing resources to achieve goals. Based on the understanding and reference of several sources about the notion of financial literacy, a synthesis of the notion of financial literacy can be taken is a situation where someone has the skills or art in managing finances well which includes aspects of credit, expenditure, savings and investment, all of which are expected to bring to the goal aspired future.

### **Lifestyle**

Lifestyle describes all one's patterns in action and interaction in the world. According to (Assael. H., 2004: 67) lifestyle is a fashion of living that is identified by how people spend their time (activities), what they consider important in their environment (interest), and what they think of themselves and the world around them (opinions. Lifestyle according to (Kotler, P, 2012: 132) is a person's lifestyle in the world expressed in his activities, interests, and opinions. Lifestyle describes "the whole person" in interacting with the environment. that lifestyle is a person's life pattern expressed in activities, interests and opinions in spending money and how to allocate time.

### **Human Capital Investment**

Investment in Human Capital means that the process of acquiring knowledge and skills through education is not merely a form of consumption, but is an investment. In 1966 Bawman introduced a conception of the human investment revolution in economic thought. The ideas above at that time greatly influenced the mindset of the government, planners, international institutions, as well as educators throughout the world in planning and developing human resources (Lutz., 2008: 59). As a result, there has been an escalation in the demand for education in developing countries which is characterized by the massively of education which is still one of the educational trade marks in most developing countries. Based on the understanding and references of several sources about human capital investment, a synthesis

of the notion of human capital investment can be taken as an investment in human capacity or capital obtained through education and skills based on good literacy and financial planning to increase personal capacity and efficiency in the future.

## RESEARCH METHODS

### Approach

The type of research in this study is quantitative research. Quantitative research is a method used to test certain theories by examining the relationship of how much influence between variables dependent to variable dependent using statistical analysis. This research is a survey research using questionnaire for collecting the data. The results of the questionnaire were tested using validity test and reliability test before running the final test using Amos Ver. 20.

### Population and Sample

Research using survey method is very important in determining the size of the sample size. The rules for selecting sample should use random sample selection and the sample size must be determined by the risk of sampling that can be tolerated. Based on these consideration, the sample selection method used in this study will be formulated in Slovin, as follows :

$$n = \frac{N}{1 + N(e^2)}$$

Where:

n = Number of samples

N = Total population

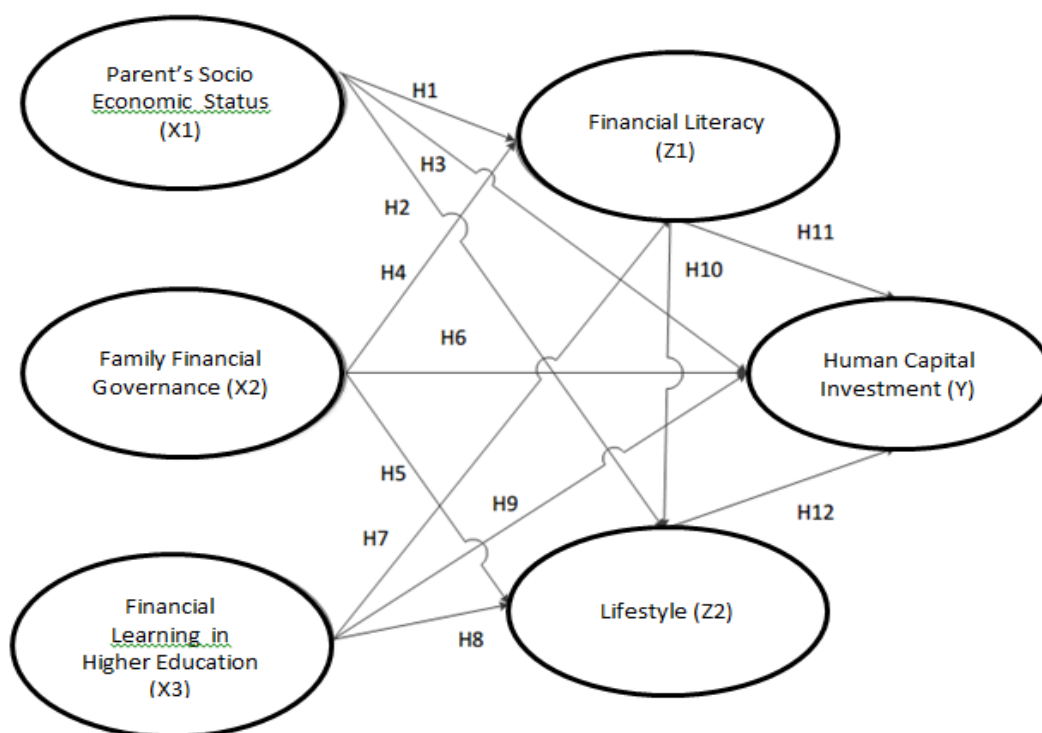
e<sup>2</sup> = Precision which set (margin of error), 5%

$$n = \frac{1233}{1 + 1233(0.05^2)}$$

$$n = 302.02 \text{ respondents}$$

in this case the number of study samples was set at 302 respondent.

## Conceptual Model



**Figure 1. Conceptual Frameworks of Research**

Operational definition is the operationalization of theoretical concepts that derived into measurable indicator. The synthesis results of the theory are as follows;

1. Parent's socio economic status can be interpreted as; ability to expense, hierarchical of education, commitment to healthy, assets of land and building, and range of earn.
2. Family financial governance can be interpreted as; family pattern, expenses notes, training of saving, trust in kids, ability to payment.
3. Financial learning in higher education can be interpreted as; optimize of understanding, majoring in financial learning, extending knowledge, time value of money, investment literating.
4. Financial literacy can be interpreted as; ability to calculate profit and loss, understand in various investment, understand in debt subject, understand in saving, ability to set financial planning.
5. Lifestyle can be interpreted as; daily activities, preferable act to spend of time, opinion about something, need spend of money, attitude toward goods and services
6. Human capital investment can be interpreted as; increasing knowledge, efficiency achievement, privately orientation, successful planning, increasing someone capacity.

## RESULTS AND DISCUSSION

The results of the descriptive analysis after the estimated model meets some of criteria. To prove the hypothesis in this study, can be done by looking into the significance of the influence of the variable coefficient and significance values of critical ratio (CR), and p-value. This figure below explaining the result of the structural equation modeling by using Amos. 20;

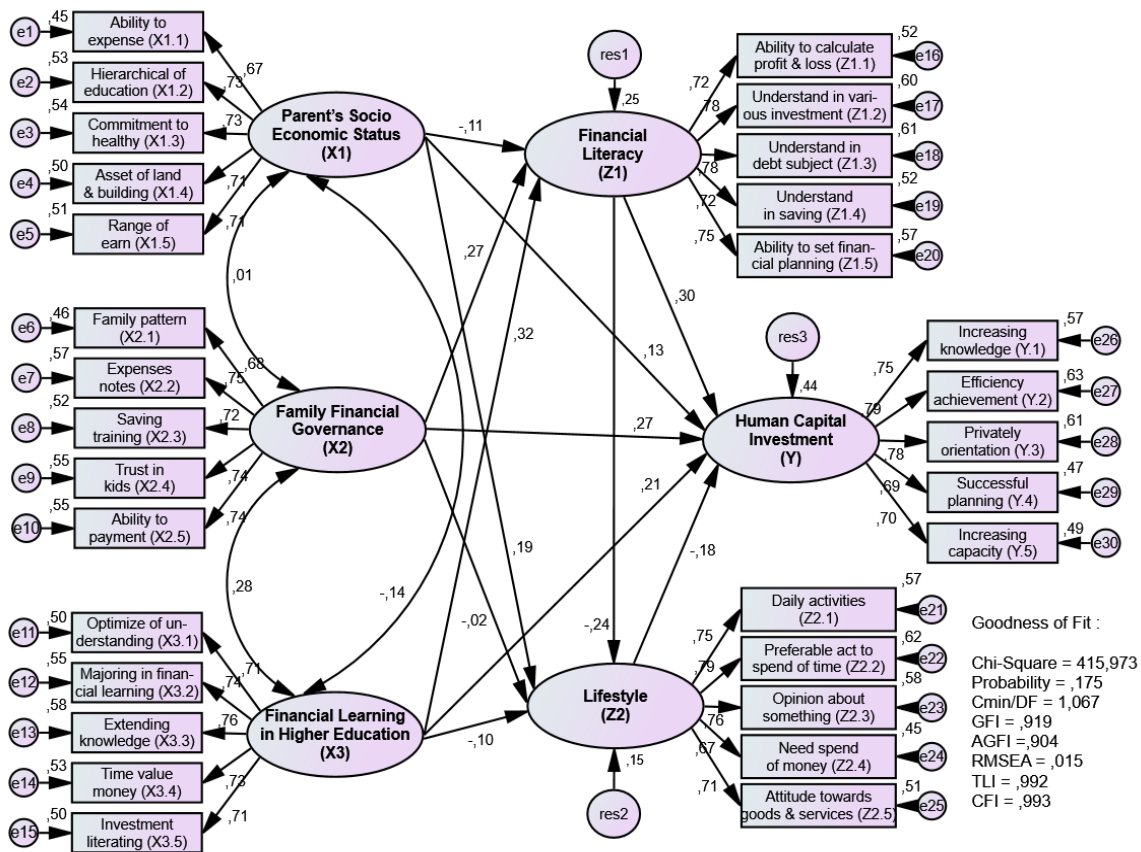


Figure 2. The Output of Structural Equation Modeling

**Hypothesis testing**

After knowing the magnitude of the coefficient value of each variable the next stage is to test the hypothesis by using the CR value and its probability. Parameters of the presence or absence of influence can be partially identified based on the CR (Critical Ratio) value. To determine whether there is an influence of exogenous variables on endogenous variables and endogenous variables on endogenous variables, provisions are used if the CR value is > 1.96 or a significance value of <0.05, it is decided that there is a significant effect of exogenous variables on endogenous variables or endogenous variables on endogenous variable.

The following are Regression Weight and Standardized Regression Weight structural equation models

**Table 1. Hypothesis Testing with Regression Weight**

Relationship Between Variables	Standardized Estimate	Critical Ratio (C.R.)	P value	Notes
Parent's Socio Economic Status (X1) → Financial Literacy (Z1)	0,114	1,812	0,070	n.s.
Parent's Socio Economic Status (X1) → Lifestyle (Z2)	0,193	2,853	0,004	s
Parent's Socio Economic Status (X1) → Human Capital Investment (Y)	0,127	2,138	0,032	s
Family Financial Governance (X2) → Financial Literacy (Z1)	0,267	3,919	0,000	s
Family Financial Governance (X2) → Lifestyle (Z2)	-0,025	-0,347	0,728	n.s.
Family Financial Governance (X2) → Human Capital Investment (Y)	0,273	4,225	0,000	s
Financial Learning in Higher Education (X3) → Financial Literacy (Z1)	0,322	4,623	0,000	s
Financial Learning in Higher Education (X3) → Lifestyle (Z2)	-0,103	-1,405	0,160	n.s.
Financial Learning in Higher Education (X3) → Human Capital Investment (Y)	0,211	3,234	0,001	s
Financial Literacy (Z1) → Lifestyle (Z2)	-0,240	-3,106	0,002	s
Financial Literacy (Z1) → Human Capital Investment (Y)	0,303	4,306	0,000	s
Lifestyle (Z2) → Human Capital Investment (Y)	-0,176	-2,849	0,004	s

According to table above the value in their column gives following results;

1. Parameter estimation results of parents' socio-economic status variables on financial literacy show a non-significant effect with a CR value of 1.812 (smaller than 1.96) and a significance level (p-value) of 0.070 (greater than 5%). The effect coefficient is only 0.114 (positive), meaning that the higher the socio-economic status of parents will have a small impact on increasing financial literacy.
2. Parameter estimation results of parents' socio-economic status variables on lifestyle shows a significant effect with a CR value of 2.853 (greater than 1.96) and a significance level (p-value) of 0.004 (smaller than 5%). The effect coefficient produced is 0.193 (positive), meaning that the higher the socio-economic status of the parents, the higher the student's lifestyle.
3. The parameter estimation results of parents' socio-economic status variables on human capital investment show a significant effect with a CR value of 2.138 (greater than 1.96) and a significance level (p-value) of 0.032 (less than 5%). The effect coefficient produced is equal to 0.127 (positive), meaning that the higher the socio-economic status of the parents, the higher the human capital investment.
4. The parameter estimation results of family financial governance variables on financial literacy show a significant effect with a CR value of 3.919 (greater than 1.96) and a significance level (p-value) of 0.000 (less than 5%). The coefficient of influence produced is equal to 0.267 (positive), meaning that the better the family financial management, the higher the financial literacy.
5. The parameter estimation results of family financial governance variables on lifestyle show a non-significant effect with a CR value of -0,347 (smaller than 1.96) and a significance level (p-value) of 0.728 (greater than 5%). The effect coefficient is only -



- 0.025, meaning that the better family financial governance will have a small impact on decreasing the level of student lifestyle.
6. The parameter estimation results of family financial governance variables on human capital investment show a significant effect with a CR value of 4.225 (greater than 1.96) and a significance level (p-value) of 0.000 (less than 5%). The effect coefficient is 0.273 (positive), meaning that the better the family financial management, the higher the human capital investment.
  7. The parameter estimation results of financial learning variables in higher education on financial literacy show a significant effect with a CR value of 4.623 (greater than 1.96) and a significance level (p-value) of 0.000 (less than 5%). The coefficient of influence produced is equal to 0.322 (positive), meaning that the better the financial learning in college, the higher the financial literacy.
  8. The parameter estimation results of college financial learning variables on lifestyle show a non-significant effect with a CR value of -1.405 (smaller than 1.96) and a significance level (p-value) of 0.160 (greater than 5%) . The effect coefficient is only at -0.103, meaning that the better financial learning in higher education will have a small impact on decreasing the level of student lifestyle.
  9. The parameter estimation results of financial learning variables in higher education on human capital investment show a significant effect with a CR value of 3.234 (greater than 1.96) and a significance level (p-value) of 0.001 (smaller than 5%). The coefficient of influence produced is equal to 0.211 (positive), meaning that the better financial learning in college, the higher the human capital investment.
  10. The parameter estimation results of financial literacy variables on lifestyle show a significant effect with a CR value of -3.106 (absolute value greater than 1.96) and a significance level (p-value) of 0.002 (smaller than 5%). The coefficient of influence produced is equal to -0.240 (negative), meaning that the better the financial literacy, the level of student lifestyle will decrease.
  11. The results of the parameter estimation of financial literacy variables on human capital investment show a significant effect with a CR value of 4.306 (greater than 1.96) and a significance level (p-value) of 0.000 (less than 5%). The effect coefficient is 0.303 (positive), meaning that the better the financial literacy, the higher the human capital investment.
  12. The lifestyle variable parameter estimation of human capital investment shows a significant effect with a CR value of -2.849 (absolute value greater than 1.96) and a significance level (p-value) of 0.004 (smaller than 5%). The effect coefficient is equal to -0.176 (negative), meaning that the higher the level of lifestyle, the human capital investment will decrease.

### CONCLUSION

Based on the results of analysis and hypothesis testing that has been done before, the results of the study conclude the following such as; 1) parents' socio-economic status has no significant effect on financial literacy in students of the Economics College in Batam City, 2) parents' socio-economic status has a significant effect on lifestyle for students of the Economics College in Batam City. 3) Parents' socio-economic status has a significant effect on human capital investment in students of the Economics College in Batam City. 4) Family financial governance has a significant effect on financial literacy in students of the Economics College in Batam City 5) Family financial governance has no significant effect on lifestyle in students of the Economics College in Batam City. 6) Family financial governance has a significant effect on human capital investment in students of the Economics College in Batam City. 7) Financial learning in higher education has a significant effect on financial literacy in students of the College of Economics in Batam City. 8) Financial learning in higher education has no significant

effect on lifestyle for students of the Economics College in Batam City. 9) Financial learning in higher education has a significant effect on human capital investment in students of the Economics College in Batam City. 10) Financial literacy has a significant effect on lifestyle in students of the Economics College in Batam City. 11) Financial literacy has a significant effect on human capital investment in students of the Economics College in Batam City. 12) Lifestyle has a significant effect on human capital investment in students of the Economics College in Batam City.

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