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HOUSEHOLD FINANCIAL MANAGEMENT IN PEKANBARU: THE IMPORTANCE OF FINANCIAL LITERACY AND LOCUS OF CONTROL

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Abstract

Research Aims:
This research aims to assess the effect of financial literacy and locus of control on household financial.

Design/Methodology/Approach:
This is a quantitative study. The sample size was determined using the GPower 3.1 software, and 100 respondents were selected to participate in this research. The data were analyzed using Structural Equation Modeling (SEM) - Partial Least Square (PLS) modeling.

Research Findings:
The findings of this study indicate that financial literacy and locus of control have a positive and significant effect on household financial management. Individuals with high levels of financial literacy consistently create budgets, save and invest their money prudently, and plan for their future financial needs. Individuals with a strong locus of control tend to make sound financial management.

Theoretical Contribution/Originality:
Integrating financial education and psychological aspects into financial literacy practice provides knowledge and mindsets for making sound financial decisions. This promotes effective household financial management, strengthens family economic resilience, and contributes to economic stability and prosperity.

Practical/Policy/Social Implications:
Policymakers should encourage collaboration among financial institutions, educational institutions, and communities to promote comprehensive financial education programs. These programs should incorporate practical approaches, such as educating families to understand how to set financial goals and make financial decisions while considering psychological factors.

Research Limitations/Implications:
This study has several limitations, including a sample size of only 100 respondents, which may not accurately represent the diversity and heterogeneity of household financial managers in Pekanbaru.

Keywords: *Financial Literacy, Locus of Control, Household Financial Management*

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INTRODUCTION

Indonesia has been experiencing a demographic dividend since 2015 and is forecasted to continue until 2035. This situation poses a tremendous opportunity and a concern that requires effective management. A demographic dividend refers to the economic growth potential that can arise from shifts in a country's age structure, mainly when the working-age population is larger than the non-working-age (Rachman *et al.*, 2022). The increase in the number of people in the productive age group can accelerate Indonesia's economic growth, assuming productivity will increase. Being capable of effectively handling all of the resources, including financial resources, is needed to maximize this potential. Without sound financial management, this great opportunity could lead to an obstacle for Indonesia's economy.

One of the main problems resulting from poor financial management is the phenomenon of sandwich generation. This phenomenon describes a situation where an adult has to support three generations: themselves, their children, and their parents (Sudarji, Panggabean and Marta, 2022). According to the Elderly Population Statistics/Statistik Penduduk Lanjut Usia 2023 published by Statistics Indonesia/Badan Pusat Statistik (BPS), only 5.02% of elderly households can fulfill their needs from their pensions and 0.4% from investments (BPS, 2023). If consumerism continues to rise, provoking people to spend all their income, combined with low awareness of preparing for future needs and retirement plans, it could lead to the next generation having to bear an even heavier financial burden. The sandwich generation phenomenon doesn't just pertain to Indonesia; it is a growing global issue that underscores the importance of financial planning and saving.

Another serious issue related to poor financial management is the threat it poses to the stability of a household. Economic issues are often a significant factor contributing to high divorce rates. According to BPS (2022) there were 10,732 divorce cases in Riau Province throughout 2022. Pekanbaru had the highest divorce rate in Riau, with 2,203 cases. A study conducted by Ermansyah (2021) found that out of the

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twelve aspects listed as causes of divorce in Pekanbaru, 69.7% were due to economic factors. Therefore, sound financial management is essential for every individual to minimize various economic problems that, if left unaddressed, can develop into multidimensional issues.

Financial management skills are necessary for all levels of society, from organizations and companies to individuals. Personal financial management is the knowledge of managing personal or family resources, which is considered crucial for achieving financial success (Garman and Forgue, 2014). Lutfi and Rr. Iramani, as cited in Gahagho, Rotinsulu and Mandeij (2021), stated that a lack of knowledge of sound financial management is the reason why some people fail to manage their finances.

One factor that can influence financial management is financial literacy. Financial literacy is a combination of awareness, knowledge, skills, attitude, and behavior necessary to make sound financial decisions to achieve financial well-being (OECD, 2023). The Financial Services Authority/Otoritas Jasa Keuangan (OJK) states that financial literacy is the combination of knowledge, skills, and confidence that influence attitudes and behaviors to enhance the quality of decision-making and financial management toward achieving prosperity (OJK, 2021).

According to the National Survey on Financial Literacy and Inclusion/ Survei Nasional Literasi dan Inklusi Keuangan (SNLIK) conducted by the Financial Services Authority in 2022, the financial literacy rate in Indonesia was 49.68%, with financial inclusion reaching 85.10%. In Riau, the percentages of financial inclusion and literacy were 85.19% and 67.27%, respectively, in 2022. These data indicate a significant gap between understanding and the product usage of financial products and services. A large number of people use financial products without fully understanding them. Various economic crimes, such as fraudulent investments and illegal online loans, are increasingly prevalent and are feared to ensnare more victims due to the low level of financial literacy in Indonesia.

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Another factor that can influence financial management is locus of control. Rotter, as cited in Rizkiawati and Asandimitra (2018), defines locus of control as the belief, expectation, or attitude regarding the connection between one's actions and the outcomes of events in their lives. Locus of control is divided into two dimensions: internal locus of control and external locus of control. Individuals with internal locus of control believe that their efforts determine what occurs to them and what they accomplish in life. On the other hand, individuals with an external locus of control believe that good and bad events are determined by factors outside themselves, such as fate, luck in life, the surrounding environment, and other external forces. Widiawati (2020) states that locus of control positively influences personal financial management. Understanding how locus of control affects financial decisions can help develop better financial education programs tailored to different mindset groups.

Several previous studies have examined household financial management and how it interacts with financial literacy and locus of control. However, numerous previous studies measured financial literacy solely through knowledge aspects. This study attempts to measure financial literacy as a more comprehensive construct by referring to how the OECD measures financial literacy.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Household Financial Management

Financial management is the implementation of general management principles to financial decision-making (such as investments, financing, dividends, and working capital) to increase an organization's or company's value (Tulsian and Tulsian, 2017). Financial management is a systematic and planned series of actions for managing funds, which includes planning, organizing, controlling, and monitoring cash flows and other financial assets.

Although financial management is commonly implemented in organizations or corporations, these basic concepts are also relevant to managing personal and

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household finances. According to Melicher and Norton (2017), personal financial management is the study of how individuals manage their assets in anticipation of difficult times, protect themselves and their assets, and grow their assets over time.

Household financial management is the practice of planning, implementing, monitoring, evaluating, and controlling the acquisition and use of family economic resources, especially finances (Widati, Zeinora and Sasmoko, 2017). As the smallest social unit, families face diverse financial needs and challenges. Therefore, families also need appropriate financial management strategies to address issues and achieve their financial goals.

Furthermore, Bajtelsmit (2024) defines personal financial planning as the process of developing and implementing strategies to attain financial goals, improve financial conditions, and prepare for unexpected financial situations. This includes income management, expenses, savings, and investments, all of which are extremely important in the context of household finances.

Effective financial management aims to prevent undesirable outcomes, such as unexpected emergencies requiring extra expenditures beyond the previously planned budget. By allocating funds for emergencies, individuals not only address urgent unforeseen needs but also avoid the potential pitfalls of debt. Moreover, besides averting undesired situations, sound financial management also serves to safeguard individuals against financial crimes such as investment scams, online gambling, and other financial frauds. In the context of household finances, practicing good financial management also sets a positive example for other family members to follow.

Manullang as cited in Kalsum, et al. (2022) states that household financial management can be measured in three indicators: 1) Household financial expenditure planning, 2) Implementation of household financial management, and 3) Monitoring of household financial management.

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Financial Literacy's Role in Household Financial Management

Financial literacy is a combination of awareness, knowledge, skills, attitudes, and behaviors necessary to make sound financial decisions to achieve financial well-being (OECD, 2023). Individuals with high levels of financial literacy are likely to make sound financial decisions and avoid poor money management. According to the OECD/INFE 2020 International Survey of Adult Financial Literacy, there are three components to measure financial literacy: knowledge, behavior, and attitude. Financial knowledge encompasses understanding financial concepts and products. Financial behavior involves practical applications, such as budgeting, saving, and prudent spending. Financial attitude reflects an individual's mindset towards how money should be spent.

Financial literacy is crucial, especially for individuals and families, enabling them to make informed financial decisions, manage debt effectively, save for emergencies and retirement, and cope with financial crises (Lusardi, Hasler and Yakoboski, 2021). Furthermore, low levels of financial literacy can lead to financial vulnerability and insecurity. By enhancing financial literacy, individuals and families can strengthen financial resilience and well-being, ultimately leading to improved financial conditions and a more secure financial future.

A higher level of financial literacy stimulates higher financial inclusion or access to financial services, such as banking, microfinance institutions, capital markets, and other financial services. Inclusive finance can drive economic development as well as poverty alleviation. Easy access to financial services combined with good financial literacy can foster the creation of an inclusive and equitable economy (Hasan, Le and Hoque, 2021).

Previous studies have studied the influence of financial literacy on financial management. Khoirunnisa and Rochmawati (2021) stated that financial literacy has a positive impact on personal financial management. Rosa and Listiadi (2020) also found that financial literacy positively affects personal financial management. Arganata and

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Lutfi (2019), however, indicated that financial literacy has a positive but not significant effect on household financial management. Individuals with good financial literacy are expected to develop sound financial management practices because financial literacy encompasses more than just financial knowledge; it also includes skills, beliefs, attitudes, and financial behaviors, thereby minimizing errors in financial decision-making.

H1: Financial literacy is hypothesized to have a positive effect on household financial management

Locus of Control Role in Household Financial Management

According to Rotter, as cited in Rizkiawati and Asandimitra (2018), locus of control refers to beliefs, expectations, or attitudes regarding the connection between a person's behavior and its outcomes. Locus of control is divided into two dimensions: internal locus of control and external locus of control. Individuals with an internal locus of control believe that everything in their lives is determined by their efforts. Individuals with an external locus of control, on the other hand, believe that what they experience is the result of things outside their control, such as fate, luck, the surrounding environment, and other external factors.

Individuals with a higher internal locus of control, which is the belief that one is in charge of their own life outcomes, are more likely to make better financial planning decisions. This sense of control over one's life outcomes enables individuals to prioritize longer-term financial goals, exhibit less impulsive behavior, and engage in more rational financial decision-making (Peetz, Robson and Xuereb, 2021). Rotter, as cited in Herleni and Tasman (2019), identified three indicators of internal locus of control: 1) ability, 2) interest, and 3) effort

Research conducted by Sari (2021) stated that locus of control has a positive and significant impact on financial management. Widiawati (2020) found that locus of control has a positive effect on personal financial management. Individuals with

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internal locus of control believe that their actions will be reflected in the outcomes that they achieve, thus motivating them to constantly work on developing their skills and not relying just on luck or fate. As a result, those who have both internal locus of control and strong financial literacy are more likely to demonstrate sound financial management.

H2: Locus of control is hypothesized to have a positive effect on household financial management.

METHODS

Data and Measurement Techniques

The population for this study comprises the household financial managers in Pekanbaru. The determination of the sample size in this research was done using the software tool GPower 3.1, which is widely used for power analysis in research. The type of power analysis selected was "A priori: Compute required sample size-given alpha, power, and effect size." An effect size of 0.15 (medium) was chosen based on Cohen's guidelines (1988, p. 412 in Axel Buchner et al., 2023). The alpha error probability was set at 0.05, and the desired statistical power was 0.80, with the number of predictors set at 5. Based on these parameters, the minimum required sample size was calculated to be 68 respondents. To ensure robustness and account for potential non-responses or incomplete data, the researcher decided to increase the sample size to 100 respondents.

The sampling technique used is nonprobability sampling, specifically purposive sampling, which is a sampling technique that does not provide an equal chance for every member of the population to be selected for the sample. In this study, the sample consists only of financial managers within families. Purposive sampling involves selecting samples based on specific considerations **(Sugiyono, 2019)**. The data obtained in this study are analyzed using Structural Equation Modeling (SEM) - Partial Least Squares (PLS) modeling.

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This study uses a quantitative research approach and primary data to analyze the factors influencing household financial management in Pekanbaru. Quantitative research involves the collection and analysis of numerical data to uncover patterns, correlations, and trends. This approach is suitable for testing hypotheses and drawing broad conclusions about the population based on sample data. For this study, the data were obtained using a questionnaire with likert scale containing several questions regarding financial literacy, locus of control, and household financial management.

Table 1. Financial Literacy Measurement

No	Indicators	Question Items	Measurement
1	Knowledge	Rp 100.000 today is worth more than Rp 100.000 in the future	Likert Scale
		I understand that taking a loan with interest will require me to repay more than the amount I initially borrowed	
		I understand that letting interest accrue on my saving account will accelerate their growth	
		To earn higher profits, I must be willing to take greater risks in my investments	
		High inflation causes a significant increase in the cost of living	
		Having a diversified investment portfolio helps mitigate the risk of substantial losses if one invesment fails	
2	Attitude	I tend to live for today and let tomorrow take care of itself	Likert Scale
		I find it more satisfying to spend money than to save it for the long term	
		Money is there to be spent	
3	Behavior	I consistently create a household budget	Likert Scale
		I consistently allocate a portion of my earnings for savings	
		Before I buy something, I carefully consider whether I can afford it	
		I pay my bills on time I keep a close personal watch on my financial affairs	
		I set long term financial goals and strive to achieve them	
		Before using financial services, I always compare several products from different companies to ensure I make the right choice	

Source: OECD (2023)

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Financial literacy is measured based on OECD guidelines in measuring financial literacy, and then adapted to a full likert scale questionnaire for this study. Sixteen questions regarding knowledge, attitude, and behavior were asked to respondents.

Table 2. Locus of Control Measurement

No	Indicators	Question Items	Measurement
1	Ability	I can achieve anything I set my mind to in order to improve my finances.	Likert Scale
		I believe I can attain financial well-being with my own abilities	
		I have solutions to resolve my financial issues	
2	Interest	I believe that what happens in the future depends on myself	Likert Scale
		There is much I can do to change the important things in my life	
		I have control over the things that happen to me	
3	Effort	In the long run, those who manage their finances well are able to maintain their prosperity	Likert Scale
		I am confident that I can tackle life's challenges through my own efforts	
		In my opinion, prosperity is not related to fate, luck, or the influence of others, but rather to my own efforts	

Source: Herleni and Tasman (2019)

Locus of control is measured by adapting questionnaire from Herleni and Tasman (2019). Nine questions regarding ability, interest, and effort to measure internal locus of control were asked to respondents.

Table 3. Household Financial Management Measurement

No	Indicators	Question Items	Measurement
1	Planning	I regularly create budget plans for household expenses	Likert Scale
		Before shopping, I compare prices at the stores where I want to shop	
		I am actively investing for the future	
		I set aside money for unexpected needs in the future	
2	Implementing	I am actively saving	Likert Scale
		When I come across something I want, I refrain from making impulsive purchases	
		I pay bills on time (e.g., electricity, installments, taxes, etc.)	
3	Monitoring	I consistently track my expenditures (daily, weekly, or monthly)	Likert Scale
		In the past 12 months, I have encountered financial	

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difficulties in meeting household expenses

Source: **Natalia, Murni and Untu (2019)** and **Kalsum et al. (2022)**.

Household financial management is measured by adapting questionnaire from Natalia, Murni and Untu (2019) as well as Kalsum et al. (2022). Nine questions regarding household financial planning, implementation, and monitoring were asked to respondents.

Data Analysis

The data analysis in this study utilized SmartPLS 3.0. Partial Least Squares (PLS) is a component-based Structural Equation Modeling (SEM) approach that allows simultaneous testing of the measurement and structural model. The measurement model is employed to assess validity and reliability, whereas the structural model is used to test causality. **Ghozali (2014)** describes PLS as a soft modeling analysis method because it does not require data to be quantified on a specific scale, allowing for smaller sample sizes (less than 100).

RESULTS AND DISCUSSIONS

A. Result

Respondents Charateristics

The characteristics of the respondents are summarized in Table 4. This section provides an overview of the demographic profile of the household financial managers in Pekanbaru who participated in the study.

Table 4. Respondents Charateristics

Respondent's Identity	Frequency	%
Based on gender		
Male	21	21%
Female	79	79%
Based on age		
20- 29 years old	26	26%
30-39 years old	45	45%
40-49 years old	17	17%
50-60 years old	9	9%

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> 60 years old	3	3%
Based on monthly income		
< Rp.3.000.000/ month	16	16%
Rp. 3.000.000 s/d 5.999.999/ month	39	39%
Rp. 6.000.000 s/d 9.999.999/ month	37	37%
More than Rp 10.000.000/ month	8	8%

Source: Research data, 2024

The data shows a higher representation of female respondents (79%) than male respondents (21%). Most respondents fall within the age range of 30-39 years (45%). The majority of respondents have a monthly income between Rp. 3.000.000 and Rp. 5.999.999 (39%), followed closely with Rp.6.000.000 - 9.999.999 monthly income respondents (37%).

Measurement Model

The Measurement Model is employed to assess the validity and reliability of the instruments used in the research to ensure that the measurement tools are appropriate and capable of measuring what is intended accurately and by actual conditions, with each indicator being valid and reliable.

An indicator is considered valid if its loading factor is above 0.50, and any indicator with a loading factor below 0.50 will be dropped from the model. Validity testing for reflective indicators involves correlating item scores with their construct scores. Measurement with reflective indicators indicates changes in one indicator within a construct if other indicators in the same construct change (or are excluded from the model). Besides the loading factor, analyzing the validity of research data can use the Average Variance Extracted (AVE) with the criterion that AVE values should be above 0.50. Reliability indicates the accuracy, consistency, and precision of a measuring instrument. If a study is reliable, the research data has been tested for the reliability and consistency of its results. Reliability testing in PLS (Partial Least Squares) can use two methods: Composite Reliability should be above 0.70, and Cronbach's Alpha should be above 0.60 (Ghozali, 2014).

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Table 5. Summary of Measurement Model Testing Results

Variable	Code	Validity: Convergent Validity Outer Loading >0.60	Validity: Discriminant Validity AVE >0.50	Reliability: Composite Reability >0.70	Reliability: Cronbach Alpha >0,60
Financial Literacy (X1)	FL_K1	0,783	0,515	0,944	0,936
	FL_K2	0,726			
	FL_K3	0,706			
	FL_K4	0,723			
	FL_K5	0,800			
	FL_K6	0,767			
	FL_A1	0,832			
	FL_A2	0,742			
	FL_A3	0,725			
	FL_B1	0,785			
	FL_B2	0,569			
	FL_B3	0,609			
	FL_B4	0,540			
	FL_B5	0,723			
	FL_B6	0,702			
	FL_B7	0,683			
Locus of Control (X2)	LC_A1	0,809	0,652	0,944	0,933
	LC_A2	0,802			
	LC_A3	0,709			
	LC_I1	0,834			
	LC_I2	0,841			
	LC_I3	0,823			
	LC_E1	0,848			
	LC_E2	0,858			
	LC_E3	0,725			
Household Financial Management (Y)	FM_P1	0,711	0,594	0,929	0,913
	FM_P2	0,654			
	FM_P3	0,806			
	FM_P4	0,625			
	FM_I1	0,766			
	FM_I2	0,834			
	FM_I3	0,855			
	FM_E1	0,839			
	FM_E2	0,811			

Source: Research data, 2024

As shown in Table 5, all indicators have outer loading values above 0.50, indicating good convergent validity. The Average Variance Extracted (AVE) values are all above 0.50, confirming that the constructs explain more than half of the variance of

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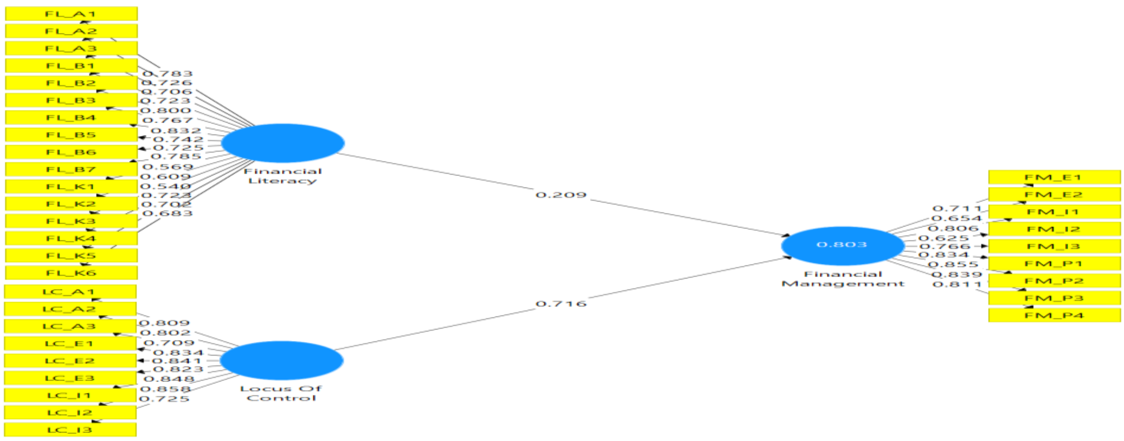
their indicators. The composite reliability values exceed 0.70, and Cronbach's alpha values are above 0.60, demonstrating that the constructs are reliable and internally consistent.

Structural Model

After confirming the validity and reliability of the measurement model, the structural model was evaluated.

Figure 1. Structural Model



Source: Research data, 2024

The R-Square (R^2) values for the research constructs are presented in Table 6.

Table 6. Coefficient of Determination Test

	R Square	R Square Adjusted
Household Financial Management	0,803	0,799

Source: Research data, 2024

The R-Squared value for the Household Financial Management construct is 0.803, indicating that 80.3% of the variance in household financial management can be explained by financial literacy and locus of control. The remaining 19.7% is explained by variables not included in this study.

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Reporting Research Results

To assess the significance of parameter coefficients, one can calculate them from valid variable dimensions. Researchers seek to determine whether there is a positive or negative and significant or non-significant influence based on the calculation of P-values, which should be below 0.05, and t-statistics greater than or equal to 1.96 **(Ghozali, 2014)**. If the t-statistic is greater than the critical t-value (1.96), then both constructs are considered significant, and vice versa.

Table 7. Path Coeficient

	Path Coef	t-value	p-value
Financial Literacy -> Household Financial Management	0,209	2,503	0,013
Locus of Control -> Household Financial Management	0,716	9,477	0,000

Source: Research data, 2024

Based on Table 7, the coefficient for financial literacy is significant ($p < 0.05$, $t > 1.96$), indicating a positive effect on household financial management.

1. The effect of financial literacy on household financial management.

   Table 7 shows that the original sample estimate for the variable of financial literacy on household financial management is positive, at 0.209. Furthermore, the t-statistic is 2.503, above the crucial value of 1.96, indicating significant influence. Therefore, Hypothesis H1 in this study is accepted. In conclusion, financial literacy has a positive and significant impact on household financial management. This shows that those with high financial literacy manage their money more effectively and wisely. Individuals with strong financial literacy are aware and knowledgeable about money management. They are also capable of efficiently managing their resources to meet their financial goals. Achieving financial well-being is not an easy thing to do, therefore having high financial literacy is essential. It ensures that individuals not only have the knowledge and

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skills to manage their money but also appropriate attitudes and behaviors when dealing with money. Moreover, the family, as the smallest unit of organization in society, plays a crucial role in educating its members and descendants to manage finances more wisely.

2. The effect of locus of control on household financial management

   Table 7 shows that the original sample estimate for the locus of control variable on household financial management is positive, with a value of 0.716. Furthermore, the t-statistic is 9.477, which significantly exceeds the critical value of 1.96, indicating a significant influence. Therefore, Hypothesis 2 (H2) in this study is accepted. To summarize, locus of control has a positive and significant effect on household financial management. It indicates that individuals with internal locus of control tend to manage their money better. Individuals with internal locus of control believe they can change their current situations without giving in or blaming fate, luck, the surrounding environment, or other external factors. It also indicates that someone with an internal locus of control has an optimistic view and believes what happens in their life can be handled and resolved. Individuals with an internal locus of control focus on managing and improving what they can, whereas individuals with an external locus of control tend to overly focus on external issues that are beyond their control when it is oneself.

B. Discussions

The findings of this study indicate that 80.3% of the variance in household financial management is explained by financial literacy and locus of control, with the remaining 19.7% influenced by other factors not addressed in this study. Both financial literacy and locus of control have a positive and significant impact on household financial management, with locus of control exerting a greater influence. These results are consistent with prior research conducted by Mulyati and Hati (2021), Sari (2021),

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and Widiawati (2020), which indicated that financial literacy and locus of control significantly influence financial management practices. This study extends the understanding of these relationships within the specific context of household financial management in Pekanbaru.

Locus of Control: Psychological Influence on Financial Management

The greater influence of locus of control in this research model suggests that psychological factors play a crucial role in financial management. Individuals with an internal locus of control believe they have control over their life events and outcomes, which fosters proactive and responsible financial behavior. These individuals are likely to take ownership of their financial decisions, continuously seek to improve their financial situation, and develop strategies to overcome financial challenges.

This finding aligns with the theory that internal locus of control contributes to better financial outcomes because it promotes self-efficacy and resilience. By contrast, those with an external locus of control might attribute their financial difficulties to external factors beyond their control, which can lead to a passive approach to financial management.

Financial Literacy: Foundation for Sound Financial Management

Financial literacy, while slightly less influential than locus of control, is still a critical factor in effective household financial management. Individuals with high financial literacy possess the knowledge and skills to make informed financial decisions, avoid common financial pitfalls, and safeguard themselves against financial frauds such as Ponzi schemes, illegal online loans, and other scams.

Good financial literacy enables individuals to budget effectively, save and invest wisely, and plan for future financial needs. It provides a foundation for understanding complex financial products and navigating the increasingly intricate financial landscape.

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Implications for Practice and Policy

The findings highlight the importance of financial education and psychological interventions in enhancing household financial management. Financial education programs should include both the technical aspects of financial management and emphasize the development of psychological skills. Managing money involves complex psychological aspects that influence behaviors and decisions. Even with knowledge, many people struggle with controlling their spending habits, dealing with consumerism pressures, and maintaining financial discipline.

Addressing the psychological aspects of financial management, particularly locus of control, is essential. Implementing strategies to foster an internal locus of control—where individuals believe in their ability to influence their financial outcomes—can significantly impact financial management practices. Practical approaches could include incorporating goal-setting exercises and decision-making simulations in financial education programs. This psychological empowerment is pivotal in cultivating resilience against financial challenges and promoting long-term financial well-being.

Policy measures can support these efforts by encouraging financial institutions, schools, and community organizations to collaborate in promoting comprehensive financial education programs. Funding incentives, partnerships with private sector entities, and curriculum integration can enhance the accessibility and effectiveness of these initiatives across different demographic groups.

Individuals can equip themselves with the necessary tools and mindset to make informed financial decisions and enhance their financial well-being by integrating psychological insights into financial literacy practices and aligning policies that support such initiatives. This approach not only enhances individual financial resilience but also contributes to broader economic stability and prosperity in communities.

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Future Research Suggestions

Future research could explore the interplay between psychological and technical factors in financial management more deeply. Investigating how different psychological traits interact with financial literacy to influence behaviors can provide a more holistic understanding of financial management. Additionally, employing qualitative or mixed methods or qualitative approaches could uncover nuanced insights into the personal experiences and contextual factors that shape financial management practices.

Expanding the sample size and including diverse demographic groups could enhance the generalizability of the findings. Studies could also examine other potential factors influencing household financial management, such as cultural attitudes towards money, social support systems, and other economic conditions.

CONCLUSION

Based on the research, it can be concluded that financial literacy has a positive and significant impact on household financial management in Pekanbaru. As households increase their level of financial literacy, their financial management practices improve accordingly. Individuals with strong financial literacy are more adept at managing their money prudently.

Furthermore, this study shows that locus of control, in this case is internal locus of control has a positive and significant effect on household financial management in Pekanbaru. Individuals with an internal locus of control tend to manage their finances more responsibly, viewing life events as opportunities to exert personal control rather than attributing outcomes to external forces. This psychological aspect plays a crucial role in financial management, as those with an internal locus of control are more likely to take proactive measures to overcome obstacles and find solutions, leading to better financial outcomes.

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LIMITATION

This study has several limitations. The sample size is limited to 100 respondents, which, although adequate for statistical analysis, may not fully capture the diversity and variability of household financial managers in Pekanbaru. A larger sample size could provide more robust and generalizable results. The sample consists of respondents from various districts in Pekanbaru but is not proportionately distributed across all districts. This uneven distribution may affect the representativeness of the findings and limit the ability to generalize the results to the broader population of household financial managers in the region. The non-probability sampling method, specifically purposive sampling, used in this study may introduce bias. The selection of respondents based on specific criteria might not fully represent the larger population's diversity, leading to potential sampling bias.

The reliance on self-reported questionnaires for data collection presents inherent limitations. Respondents may provide socially desirable answers rather than accurate reflections of their financial management practices, leading to response bias. The use of questionnaires limits the depth of understanding that can be achieved. While they provide quantitative data, they may not capture the nuances and complexities of household financial management that qualitative methods, such as interviews or focus groups, could reveal.

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