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The Influence Of The Role Of Financial Literacy And Financial Discipline On Budgeting Skills

Ratna Sari[1], Ririn Yuliani Putri[2]
[1]Universitas Dian Nusantara

Corresponding author: Ratna Sari
Email: 1111212089@mahasiswa.undira.ac.id

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Abstract
This study analyzes the influence of financial literacy and financial discipline on budgeting skills. Managing personal finances is crucial in today's era of globalization and digitalization. Financial literacy, which includes budgeting, savings, investments, and debt control, helps individuals make informed financial decisions, while financial discipline involves monitoring expenses, adhering to budgets, and evaluating financial management. Both factors shape effective budgeting skills, enabling individuals to plan and control their finances efficiently. A quantitative approach with a survey method was used, distributing questionnaires to respondents selected through purposive sampling. This causal associative study examines the relationship between financial literacy, financial discipline, and budgeting skills. The findings reveal that financial literacy enhances individuals' ability to create structured budgets by improving income planning, fund allocation, and financial resource management, while financial discipline strengthens budgeting skills by ensuring adherence to planned budgets and maintaining expense control. The implications of this study emphasize the importance of financial education as an effort to improve people's financial literacy and encourage the habit of discipline in financial management. Educational institutions, organizations, and financial institutions are expected to play an active role in providing relevant educational programs to equip individuals with better budget management skills. With increased financial literacy and financial discipline, individuals will be better able to achieve their financial stability and financial goals in a sustainable manner.

Keywords: Financial Literacy, Financial Discipline, Budgeting Skills, Financial Management, Financial Stability.

Introduction

In today's era of globalization and digitalization, the ability to manage personal finances is becoming increasingly important. According to Lusardi and Mitchell (2014), low financial literacy can result in poor financial decisions, including ineffective budget management. Financial literacy includes an understanding of basic financial concepts, such as budgeting, investing, and debt management (Lusardi, 2015). Many individuals face challenges in managing their income and expenses, which often leads to financial problems. In this context, financial literacy and financial control are two key factors that can affect an individual's ability to plan and manage budgeting skills (Klapper et al., 2012). Financial Literacy refers to an individual's knowledge and understanding of financial concepts, including money management, investment, debt, and financial planning. Individuals who have good financial literacy tend to be better able to make wise financial decisions, understand the importance of saving, and plan for their future better. Research shows that high financial literacy contributes positively to better financial behavior, including in terms of budget making and management (Lusardi & Tufano, 2009).

Financial Control on the other hand involves the ability of individuals to monitor and manage their expenses according to a predetermined budget. This includes discipline in following budget plans, the ability to adjust spending, and periodic evaluations of financial performance. Without good control, even individuals with good financial knowledge may have difficulty in applying this knowledge practically (Lusardi et al., 2013). Given the importance of these two factors, this study aims to analyze the influence of financial literacy and financial control on budgeting skills. By understanding the relationship between these three aspects, it is hoped that it can provide insight for individuals and educational institutions to develop more effective programs in improving people's financial management capabilities, so that they can achieve better financial well-being (Björklund & Sandahl, 2021).

In an increasingly complex world of finance, a deep understanding of financial products and concepts is essential. Unfortunately, many individuals still face great challenges in this regard. A lack of understanding of financial products, such as savings, investments, and loans, often results in poor decisions that have a direct impact on an individual's financial health. Many people don't understand basic concepts such as interest, inflation, and investment risk, which can lead to financial losses. This situation is exacerbated by difficulties in controlling spending and avoiding debt, as well as increasing excessive consumerism. This not only leads to financial stress but also prolonged debt problems, leaving individuals feeling trapped in an uncontrollable spending cycle (Hastings Olivia S Mitchell et al., 2011). Many people don't have a clear budget, which makes it difficult for them to keep track of their expenses and income. Without a good budget, planning for the future and achieving financial goals becomes a huge challenge. A lack of understanding of how to budget and the importance of financial planning can prevent individuals from taking the necessary steps to achieve financial stability. Research shows that low financial literacy contributes to the inability to manage finances effectively, exacerbating individuals' economic instability (Mandell, n.d.).

The increase in consumer debt is closely correlated with low levels of financial literacy. Many people don't understand the risks associated with loans, credit cards, and other financial products, so they tend to make decisions that can be detrimental. According to data from the Financial Services Authority (OJK), around 73% of Indonesians still have a low level of financial literacy, which contributes to the increase in consumer debt to reach more than Rp 1,500 trillion last year (Suleiman et al., 2022). In this context, the increasing investment awareness among the younger generation is seen as a positive phenomenon. The emergence of digital investment platforms provides better access and understanding, encouraging individuals to be more active in investing and managing their finances more wisely (Zupančič et al., 2023).

Lifestyle changes are also increasingly striking with the existence of a minimalist lifestyle movement and a reduction in excessive consumption. Many individuals are beginning to appreciate financial discipline and better management in response to the economic crisis and recession that occurred. This situation encourages people to pay more attention to the importance of saving and investing. The digitization of financial management through budgeting apps is growing in popularity, allowing people to manage budgets in real-time. The improvement of financial education from various institutions and non-profit organizations also contributes to helping individuals develop better budgeting skills (Lusardi et al., 2013). Financial literacy plays an important role in the development of budgeting skills. Individuals who have a good understanding of financial concepts, such as income, expenses, and savings, tend to be better able to create an effective budget (Xue et al., 2016). Knowledge of how financial products work helps them make wiser decisions regarding spending and investing. A study showed that high financial literacy was positively related to an individual's ability to create and stick to a budget, making it easier to achieve their financial goals (Lusardi Olivia Mitchell et al., 2013).

Although many studies indicate a positive relationship between financial literacy and budgeting skills, some results show that financial literacy does not always guarantee good budgeting skills. In one study, even though individuals had good knowledge of financial products, they still struggled to draw up a budget due to other factors, such as consumerist behavior and social pressures. These results show that although financial literacy can improve budgeting skills, external and psychological factors also play an important role in the management of an individual's finances (Lusardi & Tufano, 2009).

Financial discipline has a significant impact on budgeting skills. Individuals who apply financial discipline tend to be more skilled at drafting and adhering to budgets. They are able to resist the temptation to spend money outside of the set limits, thereby improving their ability to manage expenses and achieve financial goals. With strong discipline, one can focus more on long-term planning, which favors success in maintaining a balance between income and expenses (Antwi et al., 2024). Some studies show that although there is a positive relationship between financial discipline and budgeting skills, the results are not always consistent across all populations. In a study, it was found that individuals with a high level of financial discipline sometimes still have difficulty in following the budget that has been made, especially in difficult economic situations. This study shows that other factors, such as social environment and life experience, also affect budgeting ability. The results show that although financial discipline contributes to budgeting skills, external factors still have an important role (Lusardi & Tufano, 2009).

Methods

This study uses a quantitative approach with a survey method conducted through the distribution of questionnaires. This method was chosen because it was able to collect primary data directly from respondents quickly and efficiently to test the influence of financial literacy and financial control on budgeting skills. The research design used is causal associative, where this study aims to determine the cause-and-effect relationship between independent variables, namely financial literacy and financial control, to the dependent variable, namely budgeting skills.

The population in this study includes individuals with various backgrounds, such as unemployed or unemployed, students or students, private employees, self-employed or entrepreneurs, and other groups. This population was chosen to obtain a more representative picture of financial management in various economic activities and conditions. Each group has different characteristics in managing income, expenses, and financial budgets. This study focuses on respondents who have experience in managing personal finances, either through income, pocket money, or household management. The sample in this study was selected using purposive sampling with the criteria of respondents aged between 18 to 65 years old and having experience in managing personal finances. The number of samples used was 61 respondents with a proportional distribution of each population group.

Primary data is collected through the distribution of online-based questionnaires using platforms such as Google Forms in a specific period. This method was chosen due to its efficiency in reaching a broader and more diverse group of respondents, reducing geographical constraints, and minimizing data collection costs. Additionally, online surveys provide convenience for respondents, allowing them to complete the questionnaire at their own pace, which can lead to more thoughtful and accurate responses. The questionnaire used contained closed-ended questions with a Likert measurement scale of 1–5 to measure three research variables. The financial literacy variable (X1) includes an understanding of basic financial concepts, such as savings, investments, debt, and inflation. Financial discipline variables (X2) include the ability to monitor expenses, discipline in following the budget, and evaluation of personal financial management. Meanwhile, the budgeting skill variable (Y) focuses on the ability to compose, comply, and evaluate financial budgets. These variables were used to analyze the extent to which financial literacy and financial control affect respondents' budgeting skills in daily life. The data analysis tool used in this research is smart-PLS to test the direct influence of the independent variable on the dependent variable.

Results and Discussion

Respondent Profile

The profiles of the respondents in this study included 61 people with varying characteristics. Based on gender, the majority of respondents were 46 women (75.41%), while men amounted to 15 people (24.59%). In terms of age, most of the respondents were 18-24 years old as many as 42 people (68.85%), followed by the age group of 25-34 years with 16 people (26.23%), and the rest were in the age range of 35-44 years as many as 3 people (4.92%). Based on occupation, the majority of respondents worked as private employees as many as 30 people (49.18%), followed by students as many as 18 people (29.51%), and the rest were spread across the self-employed/entrepreneur category (8.20%) and other occupations (11.47%). From the last education aspect, the majority of respondents had a high school/ma/vocational education background or equivalent as many as 46 people (75.41%), while the Diploma and Bachelor (S1) education levels were represented by 6 people (9.84%) and 9 people (14.75%), respectively. This data shows that the respondents in this study are dominated by young age groups, women, with secondary education levels and working as private employees.

Validity Test

The results of the convergence validity test show that all indicators have an outer loading value > 0.7. The indicators on X1 Financial Literacy show a > value of 0.7 and the indicators on X2 Financial Discipline show a > number of 0.7, the Y1 Budgeting Skill construct has a value that meets the validity criteria, namely a > number of 0.7. This shows that all indicators are able to measure latent constructs validly and can be used for further testing.

Reliability Test

The reliability test in this study was carried out using Cronbach's Alpha and Composite Reliability. The test results show that all constructs have a Cronbach's Alpha value of > 0.7, which indicates that each construct has good internal reliability. In addition, the Composite Reliability (rho_a and rho_c) values for all constructs also exceeded 0.7, indicating adequate internal consistency in the indicators used. Furthermore, the results of the Average Variance Extracted (AVE) test showed a > value of 0.5 for all constructs, which means that the validity of convergence has been met. Thus, the indicators on each construct are able to explain more than 50% of the variance of the construct. Overall, these results confirm that the constructs of Financial Literacy (FL), Financial Discipline (FD), and Budgeting Skill (BS) have a high level of reliability and validity, making them feasible to be used in future tests.

Table 1. Construct Reliability and Validity Test Results

	Cronbach's Alpha	Composite Reliability (rho_a)	Composite Reliability (rho_c)	Avarage Variance Extracted (AVE)
BS	0.723	0,775	0,711	0,661
FD	0.803	0,743	0,787	0,718
FL	0.764	0,765	0,736	0,652

Source: Data Processed by Researchers (2024)

R-Square Test

The R-Square test was carried out to determine the model's ability to explain the variance in dependent variables. The test results show that the Budgeting Skill (BS) variable has an R-Square value of 0.596 and an R-Square Adjusted of 0.589, which means that 59.6% of the variance in the BS variable can be explained by independent variables in the model, while 40.4% is influenced by other variables outside the model. Meanwhile, the Financial Discipline (FD) variable has an R-Square value of 0.828 and an Adjusted R-Square of 0.822, which indicates that 82.8% of the variance in the FD variable can be explained by independent variables, while 17.2% is influenced by other variables outside the model. A high R-Square value on the FD variable indicates a strong predictive ability of the model, while the value on the BS variable is in the medium category. Overall, these results show that the research model has a good ability to explain variance in dependent variables, especially in Financial Discipline (FD) variables.

Table 2. R-Square Test Results

	R-Square	R-Square Adjusted
BS	0.596	0.589
FD	0.828	0.822

Source: Data Processed by Researchers (2024)

Path Coefficient Test

The Path Coefficient test was conducted to measure the influence between latent variables in the research model. The test results showed that all relationships between variables had a positive and significant influence with a P-Value < 0.05. First, the relationship between Budgeting Skill (BS) and Financial Discipline (FD) has a coefficient of 0.586, with a T-Statistics value of 5.881 (> 1.96), which means that BS has a positive and significant effect on FD. Second, the relationship between Financial Literacy (FL) and Budgeting Skill (BS) has a coefficient of 0.772 with T-Statistics of 15.194 (> 1.96), indicating that an increase in FL will significantly increase BS. Third, the relationship between Financial Literacy (FL) and Financial Discipline (FD) has a coefficient of 0.378 with T-Statistics of 3.629 (> 1.96), which shows that FL also has a positive and significant effect on FD. Thus, the results of this test confirm that Financial Literacy (FL) plays an important role in improving Budgeting Skill (BS) and Financial Discipline (FD), while Budgeting Skill (BS) also contributes significantly to improving Financial Discipline (FD).

Table 3. Path Coefficient Test Results

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistic	P Values
BS-> FD	0.586	0.583	0.100	5.881	0.000
FL -> BS	0.772	0.777	0.051	15.194	0.000
FL -> FD	0.378	0.379	0.104	3.629	0.000

Source: Data Processed by Researchers (2024)

Discussion

The Effect of Financial Literacy on Budgeting Skill

The results of the study show that financial literacy has a positive and significant influence on budgeting skills. Financial literacy reflects a person's level of understanding of financial management concepts and principles, such as income planning, expenditure allocation, and knowledge of savings and investments. Individuals with good financial literacy tend to be more able to prepare a budget in a structured and effective manner according to their financial conditions. A strong understanding of financial management helps individuals prioritize spending, minimize waste, and allocate resources optimally, ensuring that their financial decisions align with both short-term needs and long-term financial goals. Moreover, individuals with higher financial literacy are more likely to develop habits of tracking expenses, differentiating between wants and needs, and adjusting their budgets in response to changing financial circumstances. This proactive financial behavior reduces the risk of overspending, financial stress, and debt accumulation. Thus, increasing financial literacy plays a crucial role in shaping better budgeting skills, as it equips individuals with the knowledge and discipline to manage their finances in a more planned and responsible manner. Strengthening financial literacy not only enhances personal financial stability but also fosters a culture of financial independence and long-term wealth-building.

The Effect of the Financial Discipline on Budgeting Skill

The results show that financial discipline has a positive and significant influence on budgeting skills. Financial discipline includes a person's habit of managing expenses in a planned way, setting priorities, and refraining from unnecessary expenses. Individuals who have good financial discipline tend to be more organized in managing their finances, such as saving regularly, following a budget plan, and keeping expenses within predetermined limits. These habits support their ability to create realistic and effective budgets, so that they can achieve their financial goals with more control. In other words, the higher a person's level of financial discipline, the greater their ability to plan and manage their budget efficiently.

Conclusion

Based on the results of the study, it can be concluded that both Financial Literacy and Financial Discipline have a positive and significant influence on Budgeting Skill. Good financial literacy helps individuals in understanding the basic concepts of financial management, which in turn improves their ability to plan and manage budgets effectively. Meanwhile, financial discipline, which includes the habit of controlling expenses and saving regularly, also supports a person's ability to prepare a planned and accountable budget. These two variables complement each other and play an important role in shaping better budgeting skills, which ultimately supports individuals to achieve their financial goals more efficiently.

Based on these findings, it is recommended that individuals improve their financial literacy through education and more in-depth information about financial management, including income planning strategies, fund allocation, and understanding of investment instruments. In addition, the improvement of financial discipline also needs to be emphasized, with a focus on getting into the habit of managing planned expenses and saving regularly. Educational organizations and institutions can play an active role in organizing financial education programs that can strengthen financial literacy and financial discipline in the community. With these two factors in place, individuals will be better able to manage their budgets effectively, achieve financial stability, and make wiser financial decisions. However, this study has several limitations. First, it relies on self-reported data, which may be subject to bias as respondents might provide socially desirable answers rather than reflecting their actual financial behavior. Second, the research focuses only on a specific demographic or geographic area, which may limit the generalizability of the findings to broader populations with different financial habits and economic backgrounds. Third, external factors such as economic conditions, inflation, and unexpected financial emergencies were not extensively analyzed, even though they could significantly influence budgeting behavior. For future research, it is recommended to expand the study by incorporating qualitative methods, such as interviews or case studies, to gain deeper insights into individuals' financial decision-making processes.

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