CHAPTER II

LITERATURE REVIEW

A. Theoretical Framework

1. Theoretical Review

a. Theory of Planned Behavior

Theory of Reasoned Action (TRA) is a theory put forward by Ajzen and given the name Theory of Planned Behavior. The theory of Planned Behavior is defined as a construct that complements TRA. It is possible that an individual adopts a behavior if the individual has a positive attitude towards a behavior, gets agreement from another individual who is related and close to the behavior, and believes that such behavior can be done well. (Lee and Kotler, 2011, p. 199).

Theory of Planned Behavior is determined based on 3 factors: (1) Behavioral beliefs. It is belief on the likelihood of occurrence of a behavior. (2) Normative beliefs. It is confidence in the hope that arises because of the influence of others and the motivation to achieve those expectations. (3) Control beliefs. It is beliefs about the existence of things that support or inhibit behaviors to be displayed (control beliefs) and their perception of how powerful things support and inhibit their behavior (perceived power) (Bobek and Richard, 2003).

Martin (2017) state that the Theory of Planned Behavior (TPB) is an increase in the Theory of Reasoned Action (TRA). This is because the Theory of Planned Behavior strengthens and adds assumptions in the Theory of Reasoned Action (TRA). The theory of planned behavior further explains the TRA about a human behavior in which the behavior is governed by attitudes and behavioral intentions of a person that are characterized by the existence of social norms and the exercise of will control. The theory combines several modifications that allow greater accuracy and reliability in understanding someone's attitude and prediction in intentional, planned and produced behavior.

The Core Assumption of TPB

The rational thought used in this theory is used to produce rational considerations that aim to influence and regulate a choice of decisions or individual behavior. The theory of Planned Behavior is based on the main assumptions contained in the Theory of Reasoned Action.

1) Based on the theories that exist in TRA, an individual's intentions can largely reflect the personal attitudes of the individual, or their point of view regarding the extent to which an action is favored. This can be influenced by an individual's perceptions and cognitive beliefs about the action.
2) As in TRA, subjective norms that are explained or privatized by individuals can have an impact on an individual's intentions. This is a proof that humans are naturally social beings. Therefore, an individual prefers not to care about what other people think or believe. It is possible that an individual will have the same thoughts,

the intentions of an individual are largely formed by the extent of agreement and disagreement by the family, schoolmates, office friends, or some people whom they consider to be trusted.

3) Intention and behavior possessed by an individual can be influenced by control of the behavior perceived by the individual, or about what they are thinking and believing as their ability to do or engage in the behavior. Successful literature on TPB leads to the identification of two clear sides on perceived behavioral control:

    a) **Internal control:** Internal control refers to how an individual sees his control as what it is. It focuses on how individuals can understand themselves in control when going to do a certain behavior in the form of questions. It is also partly related to the scope of knowledge, skills or abilities, and an act of discipline in dealing with their actions.

    b) **External control:** External factors are other factors that can form an individual behavior. As an example, acceptance of family, friends, and peers can influence a person's behavior in positive or negative attitudes. Another external factor that might affect an behavior of individual is time.

    TPB explains more about how a person's intentions are different from a behavior planned by an individual which is done intentionally. This is largely traced to differences in the level of behavioral control perceived by actual controls performed or employed.

b. Maslow’s Hierarchy Theory

Maslow's Hierarchy of Needs is the theory proposed by Abraham Maslow. There are five levels of needs. To fulfill the needs, Maslow assumes that the lowest level must be fulfilled before the higher level. The basis of Maslow's theory is that human beings are motivated by unsatisfied needs and that certain lower needs need to be satisfied before higher needs can be addressed.

The five levels of Maslow’s Hierarchy of Needs:

1) Physiological Needs

The physiological need is the needs that have a high relation to the maintenance of the human physically. This level is the basic level that must be fulfilled by a human. This level is the lowest level, such as the need for water, food, air, and house.

2) Safety and Security Needs

Safety and security needs are the second need usually fulfilled after physiological needs. These needs are about keeping us safe from harm, and the need to control lives. This need for safety and security contributes largely to behaviors at this level. The examples of this level are such as law, security, health insurance, job insurance, andwellness.

3) Social Needs

After the physiological and safety needs are already fulfilled, the next level that must be fulfilled is social needs. Social needs are the need for belonging, love, and acceptance. It is include relationship with family, friend and others. The example of this level are such as the need for family, friends, love, relationship, and community.

4) Esteem Needs

Esteem needs are important for an individual. In this level people need appreciation and respect for what they do. People who can satisfy the esteem needs by achieving good self-esteem and the recognition of others tend to feel confident in their abilities. Those who have less self-esteem and less respect of others can develop feelings of inferiority. The examples of this level are such as appreciation, reward, self-esteem, self-confidence, achievement, and respect.

5) Self-actuating Needs

The last or the highest level of the needs is self-actuating need. These needs are about a person's full potential and ways to realize the potential. I, e. the need to prove and show themselves to others. At this level, someone develops the potential that he has. Self-actualization needs are needs that involve a continuous desire to fulfill the potential. The examples for this level are such as self-fulfillment, and creativity.

2. Saving Behavior

Yasid (2014) defines saving as a method to increase the standard of family life in the future. Besides preparing for betterment, saving is also a method to face the risk of sudden disasters that need funds. Assael (1998) proposes that behavior consists of three main components, i.e. cognitive component, effective component, and conative component. Cognitive component involves thinking, understanding, and awareness. Affective component involves feeling, evaluating, interest and desire. Meanwhile, the conative component involves acting, behavior, and purchase action.

Keynes (1935) states that savings are part of income that are not spent yet. This savings account is intended to provide benefits in the future or just in case of unexpected needs in the future. Hassan and Wijaya (2016) define saving behavior as actions taken by individuals, groups, or organizations that are related to the saving decision-making process. Meanwhile, Yasid (2014) states that savings behavior can be defined as the purpose of saving, namely how a person does the saving, the frequency of savings, the amount of savings and the ratio of savings compared to the owned income.

In the World Financial Map, saving behavior is defined as an understanding on how someone acts in savings in a country in terms of realizing economic conditions. It is said that if someone saves more, there will be an increase on the level of personal income. It also shows that people's living standards will improve or increase. (World Financial Map).

3. Mental Accounting

According to Thaler (1999), mental accounting is a cognitive operation used by individuals and households to regulate, evaluate, and regulate financial activities. There are three components of mental accounting, consist of:

a. The first component is how the outcome is perceived and experienced, and also about how the decision is made and evaluated.
b. The second component of mental accounting contributes to the activities of the specific account. Sources of funds and use of funds are marked in the mental accounting system. Expenses can be grouped into categories such as (housing, food, etc.) and expenses are limited by implicit or explicit budgets.
c. The third component of mental accounting is about the frequency at which the account is evaluated. Account balancing can be done every day, week, year, etc., and it can be defined both narrowly and broadly.

Ranyard (2006) proposes one of the functions of mental accounting, i.e. that decision making can be simplified. In other words, it aims to apply self-control to spread positive results throughout life cycle. This aims to contribute to good and successful money management and budgeting. The mental accounting process of integration and separation may also have hedonic functions, such as being able to share positive experiences with others in a fun way. Silooy (2012) and Herlindawati (2017) mention that mental accounting influences both hedonic behavior and more positive behavior in managing finances.

Mental accounting is a description on the way a person performs the accounting process that can only be learned by making observations on a person's behavior or inferring the applied rules in society. Mental accounting has several goals. One of which is a tool to self control which causes people to think rationally. Therefore, they can make decisions well and help others to see financial problems better.

4. Financial Literacy

Lusardi (2008) state that financial literacy is a knowledge on basic financial concepts, such as compounding work, the difference between nominal and real values and the basis of diversified risk. Financial literacy is aslo define as something that can affect one's thinking on financial management that can better financial conditions (Putri, 2017). In addition, Marwati 2018 defines financial literacy as knowledge, beliefs, and skills, which influence one's attitudes and behavior in terms of improving good quality in decision making and financial management to achieve prosperity (OJK, 2016). Therefore, financial literacy is very important for the community to avoid or reduce economic difficulties due to the existence of improper or wrong financial management.

Further Kiliyanni and Sivaraman (2016) propose that financial literacy is the ability of a person or household to effectively manage their finances.

Financial literacy can provide explanation to the community on the understanding on the effective and efficient use of financial management. Financial literacy is also seen as the knowledge to manage finances in financial decision making (Rita and Santoso, 2017). Financial literacy includes the ability to distinguish financial choices, discuss money and financial problems without inconvenience, plan for the future, and respond competently to life events that affect daily financial decisions, including general economic events (Sari, 2015).

5. Financial Behavior

Pompian (2012) states that financial behavior defines the treatment of a person's psychological aspects in his finances. Attitudes refer to how a person controls personal financial problems, which are measured through responses to a statement or opinion (Marsh, 2006). Humaira (2018) propose that financial attitudes are interpreted as a state of mind, opinion, and an assessment of finances that are applied to attitudes. Financial attitude is also defined as the application of financial principles to create and maintain value through appropriate decision making and resource management. Rajna et al., (2011) mention that financial attitudes are psychological tendencies expressed when evaluating recommended financial management practices with several levels of agreement and disagreement.

6. Peers

Hakim (2015) interprets peers as children of the same age and level of maturity. Meanwhile, Hurlock (1978) explains that social acceptance refers to someone who is chosen as a friend to carry out activities in a group. This social acceptance is a measure of the success of children in carrying out social functions and shows the level of likeness among children.

Hurlock (1978) defines peers as a group of people who are more or less in the same age group in which this group thinks and acts together. Benitez and Justicia (2006) sate that peer groups in the school environment ideally act as "partners" of students in the process of achieving educational programs. Further, Slavin (2008: 98) proposes Peer Friend Environment as an interaction with people who have similarities in age and status.

In adolescence, closeness to the peer group is very high. It is because a peer group can be replaced by a family group, it is also a source of affection, sympathy, and understanding, it is space to share experiences and as a place for adolescents to achieve autonomy and independence. Thus, adolescents tend to adopt information received by their peers, without having a significant information base from more reliable sources (Branstetter, S.A, 2003).

7. Self-control

Delisi and Berg (2006) define as self-control as a person's action to automatically control habits, impulses, emotions, and desires to direct their behavior. Manolis (2012) states that self-control consists of three components, namely monitoring, decreasing ego, and conflict goals affecting spontaneous purchases of goods.

Hoyri (2014) defines self-control as the degree to which a person is exposed to a momentary temptation. Furthermore, Gottfredson state that people who have low self-control are people who have an orientation here and now, preferring to do something physical rather than relying on cognitive, aspect. They are happy in dangerous activities, less sensitive to the needs of others, prefer shortcuts compared to complex things, and have a low tolerance for sources of frustration. Nofsinger (2005) mention that self-control is identified as the key source of restraint that prevents individuals from acting in ways that cause harm to themselves or others.

Ghufron (2010) states that Self-control is a personal control behavior, cognitive control, and decision control. Behavior control is the readiness on the availability of a response that can directly influence or modify an unpleasant situation. Cognitive control is an individual's ability to process unwanted information by interpreting, evaluating, or connecting an event in a cognitive framework as a psychological adaptation or pressure reduction. Decision control is a person's ability to choose results or action based on something that is believed or agreed.

Self-control is the formation of a reaction intended to replace something with other, such as a reaction when diverting attention from something desired, changing emotions, holding back a certain urge, and improving performance (Naomi and Mayasari, 2008).

B. Literature Review and Hypothesis Development

1. The Influence of Mental Accounting on Saving Behavior

Mental accounting is the act of categorizing money for certain needs, i.e. separating money for planned purposes. The better a person is in allocating money, the better is the financial behavior. This is based on maslow hierarchy theory which explains the fulfillment of needs based on basic needed. Damayanti and Supromono (2011) state that mental accounting is related to the ability to label income and expenses which are then sorted into certain accounts. The election process then becomes the allocation of funds into the account based on the sources obtained and the allocation of accounts based on the intended use. Thaler (1999) mentions that mental accounting is the set of cognitive operations used by individuals and households to organize, evaluate, and keep track of financial activities.

Someone who experiences mental accounting problems generally have the following characteristics:

(1) They tend to shop more when using a credit card rather than using cash

(2) Money with the same amount obtained from work will be different from the one obtained from prizes or lottery.

(3) Even though they earn a large amount of money and are not wasteful, it is difficult for them to save money.

It might be because someone has made savings at a large expense item, but does not pay attention to a small expense item. Such small payments and routine expenses, if accumulated, can be quite a lot. Many students unconsciously complain that they are not wasteful, yet they find it difficult to save money (Marteniawati, 2012).

Based on the explanation, the hypothesis is formulated as follows:

H1: mental accounting has a significant positive effect on saving behavior

2. The Influence of Financial Literacy Toward Saving Behavior

Manurung (2009) defines financial literacy as a set of skills and knowledge that allows an individual to make effective decisions on their financial resources. Someone who has an education at the university level will have a high level of financial literacy. It can be said that the higher the level of education the higher the level of financial literacy. As explained in the theory of plan behavior one of that factor is attitude, someone will do their activity based on their attitude. If individuals have a good attitude, they will do better activity. A good attitude comes from the way someone processes financial information correctly.

A research conducted by Wildayati (2018) found that financial literacy has a significant influence on saving behavior. Ardiana (2017) states that financial literacy has a significant effect on saving behavior. Sirine and Utami (2016) also mention that financial literacy has a significant effect on saving behavior. Triani (2017) proposes a different result in which financial literacy doesn't influence the saving behavior of undergraduate students in four universities in Padang.

From the explanation above, the hypothesis can be formulated as follows:

H2: Financial literacy has a significant positive effect on saving behavior

3. The Influence of Financial Behavior on Saving Behavior

Pompian (2012) states that financial behavior is the treatment of one's psychological aspects in its finances. As in the theory of planned behavior, which discusses the behavior of human. The example of financial behavior is when the individual make a notes for their daily expenditures. This means that the better the person's psychology on finance, the better the person in managing finance. Inconclusion, that it can lead to saving behavior.

Harari (2016) states that the formation of positive attitudes affects saving and more positive financial behaviors. Intelligent financial behavior and meaningful saving can be encouraged when involvement in saving is higher. Wildayati (2018) states that financial behavior has a significant positive effect in saving behavior.

Therefore, the hypothesis is formulated as follows:

H3: Financial behavior has a significant positive effect on saving behavior

4. The Influence of Family Financial Education on Saving Behavior

Financial education in a family is an important aspect. It involves as a process of someone to be more independent and mature. Saving behavior depends on parents' socio-economic status or socialization provided by parents to children. The socialization process is given as a direction by the family to manage finances well, save early, manage pocket money, or invest. As explained in the theory of planed behavior one of the factors is control, where control is divided into two namely internal and external control. Family financial education is the external factor that can influence the behavior of human. If the role of family in educating the children is good, the behavior of children in managing their money will be better also

Wahyono (2001) states that the process of financial education in the family involves other aspects and is usually not scheduled. Therefore, it takes place every time and incidental. The process of adherence and daily attitudes of parents and the intensity of communication between children and parents in life has an important role in children's financial education.

Harari (2016) mentions that the greater the perceived importance attitudes of parents and peers, the higher the child's involvement in saving. Ardiana (2017) states that family financial education has a significant influence on saving behavior. It is different from Triani (2017) who states that family financial education does not influence saving behavior.

In short, the hypothesis is formulated as follows:

H4: Family financial education has a significant positive effect on saving behavior

5. The Influence of Peer on Saving Behavior

Friends can be one of the good or bad influences to someone in managing finances. Teens often gather to spend time together, exchange ideas, information, experiences with each other. In brief, friends can influence the attitudes, appearance, lifestyle, ways of speaking, motivation, and behavior of a person. As explained in the theory of planed behavior one of the factors is control, where control is divided into two namely internal and external control. Peer is the external factor that can influence the behavior of human. Friend can be good or bad influence to behavior of human. If the peer has a good influence for implementing the saving behavior to the individual, a better saving behavior that will be implement.

Harari (2016) proposes that the greater of perceived importance attitudes of parents and peers, the higher the child's involvement in saving. Chotimah and Rohayati (2015) state that the time students have which is mostly spent with college friends can influence students' financial education. Thung (2012) mention that peer has a significant effect on saving behavior. Sirine and Utami (2016) state different opinion, i.e. peer does not have a significant effect on saving behavior. Triani (2017) also state that peer does not have a significant effect on saving behavior.

In short, the hypothesis is formulated as follows:

H5: Peer has a significant positive effect on saving behavior

6. **The Influence of Self-Control on Saving Behavior**

Self-control is one of the important factors of an individual who can determine the level of financial management. Self-control is related to how someone control his emotions and impulses. Hoyri (2014) mentions that people who have low self-control are people who have an orientation here and now, prefer to do something physically rather than relying on cognitive are less sensitive to the needs of others, prefer shortcuts compared to complex things, and have a low tolerance for sources of frustration. As explained in the theory of planed behavior one of the factors is control, where control is divided into two namely internal and external control. Self-control is the part of internal control. That is something that embedded in human. If individual have a good of self-control, then the saving behavior will be good also. Because individual can control the activity that can reduce the saving bevavior.

Fudenberg and Levine (2006) state that people who have a higher level of self-control will save more rather than those who have a lower level of self-control. Ardiana (2017) argues that self-control has a significant effect on saving behavior. Triani (2017) also states that self-control has a significant effect on saving behavior. Sirine and Utami (2016) similarly propose that self-control have a significant positive effect on saving behavior. Wahana (2014) also mentions that self-control has a positive significant effect on saving.

Thus, the hypothesis is formulated as follows:

H6: The self-control has a significant positive effect on saving behavior

C. Research Model

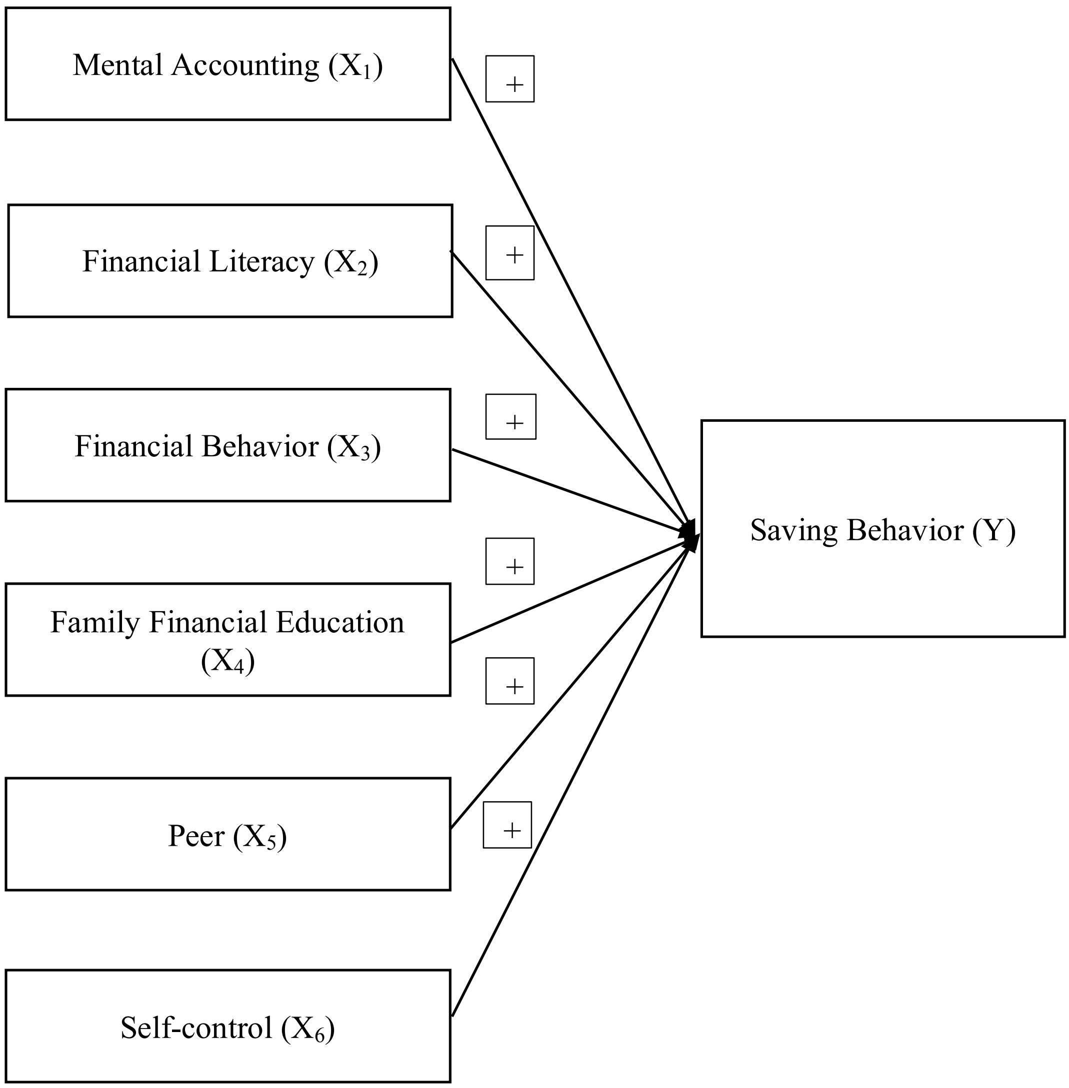

Figure 2. 1 Reseach Model