PERKUMPULAN PRAKTISI BISNIS
INTERNATIONAL DAN MANAJEMEN
(ASSOCIATION OF INTERNATIONAL BUSINESS
AND PROFESSIONAL MANAGEMENT)

FINANCIAL STRATEGIES AND BEHAVIORAL INSIGHTS:

NAVIGATING MODERN FINANCE IN A DIGITAL ERA

2026

BOOK CHAPTER

Perkumpulan Praktisi Bisnis International dan Manajemen

Sanctions for Violating Article 113
Law No. 28 of 2014 on Copyright

1. Any person who, without authorization, infringes the economic rights as referred to in Article 9 paragraph (1) letter i for commercial use shall be subject to imprisonment for a maximum of 1 (one) year and/or a fine of up to IDR 100,000,000 (one hundred million rupiah).
2. Any person who, without authorization and/or without the permission of the creator or copyright holder, infringes the economic rights of the creator as referred to in Article 9 paragraph (1) letters c, d, f, and/or h for commercial use shall be subject to imprisonment for a maximum of 3 (three) years and/or a fine of up to IDR 500,000,000 (five hundred million rupiah).
3. Any person who, without authorization and/or without the permission of the creator or copyright holder, infringes the economic rights of the creator as referred to in Article 9 paragraph (1) letters a, b, e, and/or g for commercial use shall be subject to imprisonment for a maximum of 4 (four) years and/or a fine of up to IDR 1,000,000,000 (one billion rupiah).

   Any person who commits the offense as mentioned in paragraph (3) in the form of piracy shall be subject to imprisonment for a maximum of 10 (ten) years and/or a fine of up to IDR 4,000,000,000 (four billion rupiah).

Financial Strategies and Behavioral Insights: Navigating Modern Finance in a Digital Era

By:
Anis Wulandari, Barin Barlian, Evilia Sri Yuniar, Fariyana Kusumawati, Fransiska Soejono, Irly Artiara Irawan, Komang Ayu Sintha Trisnayuni, Ni Kadek Oktaviani, Ni Luh Ayu Sekar Wangi, Ni Nyoman Ayu Suryandari, Nita Fauziah Oktaviani, Nurul Kompyurini, Sulastri Sulastri, Yudhanta Sambharakreshna

2026

Book

Author:
Anis Wulandari, Barin Barlian, Evilia Sri Yuniar, Fariyana Kusumawati, Fransiska Soejono, Irly Artiara Irawan, Komang Ayu Sintha Trisnayuni, Ni Kadek Oktaviani, Ni Luh Ayu Sekar Wangi, Ni Nyoman Ayu Suryandari, Nita Fauziah Oktaviani, Nurul Kompyurini, Sulastri Sulastri, Yudhanta Sambharakreshna

ISBN:

Cover Designer:
Perkumpulan Praktisi Bisnis International dan Manajemen

Layout Designer:
Perkumpulan Praktisi Bisnis International dan Manajemen (Association of International Business and Professional Management)

Prepress and Production:
Perkumpulan Praktisi Bisnis International dan Manajemen (Association of International Business and Professional Management)

Publisher:
Perkumpulan Praktisi Bisnis International dan Manajemen (Association of International Business and Professional Management)

Editorial Team:
Dr. Liem Gai Sin, M.Bus (Adv) & Perkumpulan Praktisi Bisnis International dan Manajemen

First Edition, March 2026
i-xii+118 pages, 15.5 cm x 23.5 cm

Foreword by Expert

I am honored to write the foreword for this significant publication, which serves as a vital resource for both finance practitioners and academics. The insights shared in this book reflect the evolving challenges and dynamic innovations in the world of finance and business.

This book offers a blend of theoretical frameworks and practical implementations that will benefit researchers, students, and professionals alike. I commend the authors and editors for their dedication in compiling such a comprehensive and timely work.

Dr. Liem Gai Sin
Founder & President of Perkumpulan Praktisi Bisnis International dan Manajemen (Association of International Business and Professional Management)

Foreword by Editor

This book represents the collaborative spirit and intellectual rigor of contributors from various backgrounds, united by a shared interest in finance, innovation, and academic advancement.

Our goal in creating this book was not only to present quality research but also to provide a platform where theory meets practice offering valuable perspectives to finance professionals and academic readers.

We hope this book contributes meaningfully to the development of finance knowledge and encourages further collaboration among stakeholders in the academic and professional sectors.

The Editorial Team

Table of Contents

List of Figures

List of Tables

1. Introduction

Finance plays a crucial role in the development and sustainability of both individual and institutional economic activities. The dynamic nature of global economies, rapid technological advancements, and shifting financial behaviors necessitate continuous exploration and understanding of various financial phenomena. This book, titled *Scope Finance*, serves as a comprehensive platform that presents diverse studies and insights across critical financial topics, ranging from micro to macro perspectives, and conventional to Islamic finance.

The chapters compiled in this book address various pressing financial issues, including the perception of government financing programs like KUR among MSMEs, the influence of financial management and investment experience on financial freedom, and the strategic navigation of firm value and financial performance within state-owned enterprises. The integration of contemporary themes such as digital financial inclusion, Islamic financial behavior, and dividend payout strategies during economic uncertainties further enriches the content of this book, making it highly relevant to academics, practitioners, policymakers, and anyone interested in understanding financial dynamics in the modern era.

Through empirical research, case studies, and theoretical explorations, this book aims to contribute to the discourse on financial literacy, strategic financial management, and the implications of financial decisions on economic growth and individual financial well-being. It is hoped that the insights provided here will serve as a valuable reference for future research, financial policy development, and practical financial management strategies.

Chapter 1. Knowing KUR Perception with an Islamic Financial Behavior Approach and Digital Financial Inclusion as an Intervening Variable in MSMEs Tasikmalaya, Indonesia

1.1. Abstract

This research was to find out how Islamic financial behavior influences perceptions of KUR and also digital financial inclusion as an intervening variable. KUR (People's Business Credit) is a financing program provided to MSMEs as a form of support from the Indonesian government. KUR is credit given to MSMEs that are not yet bankable but have potential for working capital and investment purposes. However, the number of MSMEs using KUR is still below the Indonesian government's target. The research used a mixed method with a sample size of 150 respondents consisting of MSMEs in Tasikmalaya. The research results show that Islamic financial behavior has a significant influence on the perception of KUR, Islamic financial behavior has a significant influence on digital financial inclusion, and Islamic financial through digital financial inclusion has a significant influence on the perception of KUR in Tasikmalaya MSMEs. This shows that the government must be able to increase digital financial inclusion and have some Sharia-based KUR concepts

1.2 INTRODUCTION

Various countries realize the importance of the existence of MSMEs in their national economies, so their governments have assistance programs for MSMEs to help them survive amidst increasing business competition, especially with the many trends in free economic zones, which means domestic products produced by MSMEs must compete with products from abroad. Companies in China also face problems in terms of "difficult and expensive financing," namely the difficulty of finding funds for innovation and

business development. Issues like these hinder China's economic progress (Mubeen et al., 2022)

In Indonesia, there is KUR (People's Business Credit), a financing program provided to MSMEs as a form of support from the Indonesian Government. KUR is credit given to MSMEs that are not yet bankable but have potential (Suryani et al., 2019). KUR is expected to be able to support MSMEs to develop their businesses with easier and more affordable access to financing. Capital assistance provided to MSMEs is not only provided in Indonesia but is also provided in several other countries. The UK implemented various measures to support SMEs in the context of the pandemic by issuing various loan schemes (Chen et al., 2023)

However, sadly, in Indonesia, as of September 2023, KUR realization is still relatively low, namely IDR 175.73 trillion out of the target of IDR 297 trillion (Coordinator of the Indonesian Ministry of Economic Affairs, 2023). This is a serious problem and must be handled well. There must be more intensive government intervention in advancing MSMEs in the regions so that MSMEs can survive (BINH et al., 2020).

One of the regions in Indonesia with a variety of MSMEs is East Priangan which accounts for 36% of the number of MSMEs in West Java. In fact, Tasikmalaya is the region with the most MSMEs in West Java (Adji, 2019). Thus, it is important to research the existence of MSMEs in Tasikmalaya region, including their perceptions of KUR.

Changes in company decision-making as a result of company financing behavior are fully reflected in the capital structure (Korajczyk, 2003). One of the factors thought to influence the perception of KUR is Islamic finance behavior. Indonesia, as one of the countries with the largest Muslim majority in the world, shows that the majority of MSME owners in Indonesia are Muslims who

apply Sharia principles in running their lives, including in managing their businesses. The growth of the sharia industry in Indonesia has demonstrated significant progress (Mujiatun, 2023).

Furthermore, the Indonesian government has issued various regulations governing Sharia trading, such as Indonesia Bank Regulations Number: 17/10/PBI/2008 about Sharia Bank Products And Sharia Business Units. Several banks in Indonesia provide Sharia trading products and services, such as savings accounts, deposits, and credit. It is thought that Sharia practices are important for some people including SMSE owners.

The Industrial Revolution 4.0 gave birth to many digital products including financial technology. Financial technology was created by integrating technology and financial products so that financial products would be easier for everyone to access (Indonesia Bank, 2017). Another benefit of fintech is that it enables someone to access all information about financial products more quickly and easily. The level of fintech adoption varies across countries due to infrastructural differences. Developing countries like Indonesia face unique challenges in fintech access compared to other nations (Agustin, 2023). Furthermore, Indonesia's vast geography presents additional hurdles in achieving digital financial inclusion.

1.3 Literature Review

People's Business Credit (KUR)

In accordance with Indonesian Minister of Finance Regulation No. 12 of 2024, the People's Business Credit (KUR) program offers credit/financing for working capital and/or investment to productive and viable individual/sole proprietors, business entities, and/or business groups lacking sufficient collateral. Furthermore, as Sunarta et al. (2023) note, KUR's business capital lending services are designed to stimulate national economic growth through targeted financial interventions.

Several provisions are outlined in the Regulation of the Coordinating Minister for Economic Affairs of the Republic of Indonesia Number 1 of 2023. KUR recipients are individuals, either individually or in business groups or business entities, who carry out productive businesses and become KUR debtors. The provisions based on KUR Collateral consist of (1) Principal Collateral: business or object financed by KUR, and (2) Additional Collateral: applicable to KUR with a loan ceiling above IDR 100,000,000 in accordance with the policy/objective assessment of the KUR distributor.

Based on research by Suryani et al. (2019), SMEs' access to banking is still very limited, so SMEs use informal financial institutions as complementary financial institutions to formal banking. The factor that influences the development value of SME business profits is the ability of SMEs to access capital originating from KUR funds. Research by Apriyanti et al. (2023) indicates that one of the factors causing MSMEs to have their KUR applications rejected is the customer's loan history, as detected by BI Checking. Therefore, the KUR application must be carried out in accordance with the existing process.

This shows that to improve the perception of KUR among SMEs, they must have digital financial inclusion or access to various digital financial products. For MSME owners who do not have access to a variety of digital financial products, they will face obstacles in accessing sufficient information, which in turn affects their ability to have a good perception of KUR. Therefore, building access to and understanding of digital finance is very important for MSME owners.

Islamic Finance Behavior

Behavioral finance refers to an individual's attitude or behavior in making financial decisions, including thinking about and

considering their financial patterns (Iqbal & Mirakhor, 2017). Meanwhile, according to Utami and Abdullah (2023), behavioral finance is an individual's ability to plan, budget, monitor, control, seek out, and set aside the daily finances that they carry out. Islamic Financing is known as an alternative financial service, distinct from conventional concepts, designed to cater to Muslims who adhere to Sharia law in their religion, specifically those that are free from elements of gharar, usury, and gambling. Islam is a religion and set of teachings that govern all aspects of human life, including those related to economics.

One of the things that needs to be considered in Islamic Finance Behavior is how the pattern of financial transactions carried out does not violate sharia principles, one of which is avoiding usury. The KUR provided by the Government for MSMEs essentially has the concept of interest that must be paid by customers, and in the Islamic concept, usury is haram. Therefore, it is suspected that some MSME owners are cautious in choosing sources of external capital, partly because they are concerned about the concept of usury. This is thought to influence their perception of KUR. Shariah trade refers to trade related to Shariah principles or Islamic law. Shariah transactions require compliance with Shariah principles, which must not contain elements of riba (interest), gharar (uncertainty), maysir (gambling), or haram (prohibition) (Agustin Wahyu, 2019).

Currently, there is a sharia-based KUR offered to the public so that MSME owners who are concerned about usury in the use of their capital resources can utilize the sharia-based system. Research by Boubker et al. (2021) indicates a positive correlation between religious obligation, the reputation of Islamic financing, and favorable attitudes toward it. Furthermore, subjective norms, attitudes toward Islamic financing, and perceived behavioral control significantly and positively influence the intention to adopt Islamic financing. This research suggests that Islamic bank

managers should proactively engage potential clients, particularly micro-business owners, to effectively communicate the benefits and attractiveness of Islamic finance.

Digital Financial Inclusion

The phrase "digital financial inclusion" refers to the ability of underserved and excluded populations to access and utilize formal financial services through digital means (Lauer & Lyman, 2015). Digital financial inclusion demonstrates a more extensive reach compared to traditional financial inclusion. This observation is substantiated by the finding that provinces and cities exhibited a narrower disparity in digital financial inclusion than in traditional financial inclusion. Digital financial inclusion helps reduce the knowledge gap between individuals and financial institutions (Guo et al., 2019).

Additionally, the expansion of access to financial services can foster economic growth and development. A higher level of financial inclusion within a country correlates with a reduced reliance on informal financial services among vulnerable groups, thereby supporting more stable economic growth (Wang & Fu, 2022). Digital transformation and business model innovation are imperative, whether as reactive or proactive strategies (Alamanda et al., 2021).

The goal of digital financial inclusion is to remove barriers so that people can use and benefit from the financial services that institutions provide. A key factor in ensuring that financial products are accessible and used in all countries to increase economic benefits is financial inclusion. With digital financial inclusion, many parties can access information about digital financial products, including credit from the government (Wang & Fu, 2022), and details about the credit system. MSME owners can search for information about the KUR system and determine whether it aligns with their business principles.

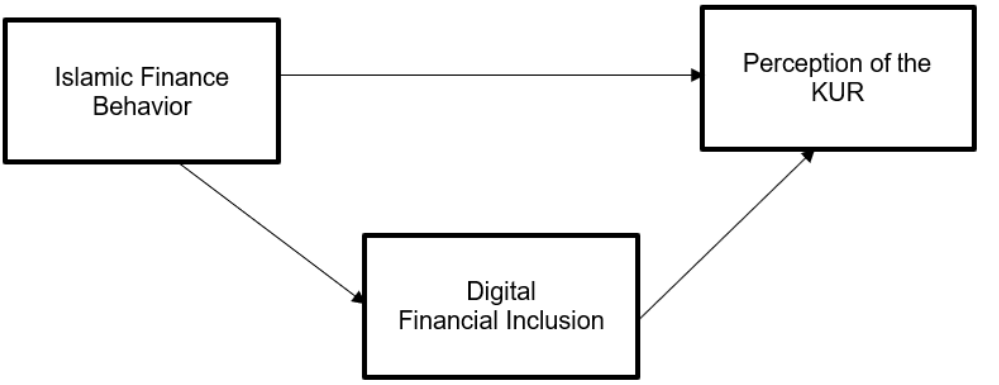
An MSME owner who already adheres to the principles of Islamic Financial Behavior and is supported by all the information and access obtained through digital financial inclusion is likely to have their perception of KUR influenced. Additionally, the adoption of digital financial inclusion can bolster trust in Sharia finance. The implementation of robust technology can enhance the confidence of MSME players in KUR.

Hypotheses Development

Based on the explanation of the literature review above, the hypotheses in this study are as follows:

H1: Islamic finance behavior has a significant direct influence on the perception of KUR
H2: Digital financial inclusion has a significant direct influence on the perception of KUR
H3: Islamic financial behavior has an indirect influence on the perception of the KUR through digital financial inclusion

Figure 1. Research Paradigm



.

1.4 Research Method

In the realm of research, the sequential explanatory mixed method approach entails the initial collection and analysis of quantitative data, followed by the subsequent gathering and analysis of qualitative data. This methodology aims to reinforce the findings of the quantitative research conducted in the first phase. Mixed methods involve the concurrent utilization of quantitative and qualitative methods to obtain more comprehensive, reliable, authentic, and objective data (Sugiyono, 2015). Primary data is sourced from questionnaires and interviews, while PLS-SEM Ver 4 serves as the primary analytical tool.

The population in this study is all MSMEs in Tasikmalaya. To determine the number of samples to be used, Roscoe's theory is used. According to Roscoe, the size of the sample in the study was 30 to 500 (Sugiyono, 2015). Based on this, the number of samples in this study was 150 respondents who were taken using random sampling techniques.

1.5 Results

Evaluation of the Measurement Model (Outer Model)

Convergent validity can be seen from the factor loadings. The factor loadings in this research are as follows:

Table 1.1 The Value of The Outer Loading

Variable	Indicators	Outer Loading	AVE	Results
Islamic Finance Behavior (IB)	IB1	0.587	0.623	Valid
	IB2	0.555		
	IB3	0.715		
	IB4	0.842		
	IB5	0.753		
	IB6	0.886		
	IB7	0.874		

	IB8	0.925		
	IB9	0.909		
	IB10	0.760		
	IB11	0.760		
Digital Financial Inclusion (IK)	IK1	0.824	0.648	Valid
	IK2	0.880		
	IK3	0.874		
	IK4	0.856		
	IK5	0.805		
	IK6	0.703		
	IK7	0.778		
	IK8	0.739		
	IK9	0.873		
	IK10	0.834		
	IK11	0.651		
Perception of KUR	PK1	0.691	0.503	Valid
	PK2	0.600		
	PK3	0.566		
	PK4	0.564		
	PK5	0.693		
	PK6	0.749		
	PK7	0.787		
	PK8	0.773		
	PK9	0.753		
	PK10	0.759		
	PK11	0.786		
	PK12	0.636		
	PK13	0.658		
	PK14	0.741		
	PK15	0.707		
	PK16	0.743		
	PK17	0.778		
	PK18	0.718		

The outer loading values of all indicators in Table 1 exceed 0.5, indicating that they satisfy the validity criteria. According to Ghozali (2014), an outer loading value between 0.5 and 0.6 is sufficient to meet convergent validity requirements. Furthermore, the AVE value of each indicator is greater than 0.50, providing additional evidence of convergent validity.

Table 1.2. Reliability Value

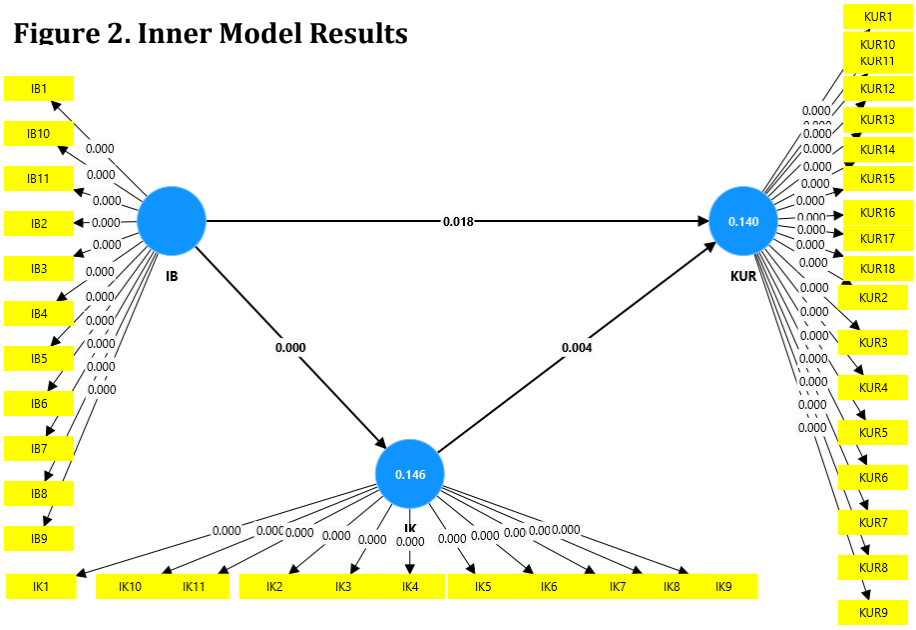
	Cronbach's alpha	Composite reliability (rho_c)	Results
IB	0.936	0.947	Reliable
IK	0.943	0.952	Reliable
PK	0.943	0.947	Reliable

Based on Table 1.2, it can be seen that all Cronbach's alpha values are above 0.6. If the Cronbach's alpha α value is > 0.60 then the instrument has good reliability, in other words, the instrument is reliable or trusted so that all the constructs of this research are reliable and can be trusted.

Structural Model Test

The structural model test is carried out after testing the outer model. The results of the inner model can be seen as follows:

Figure 2. Inner Model Results



The P-values analysis will be carried out to see the influence of the independent latent variable on the dependent latent variable, which can be seen in the table below:

Table 1.3. Path Coefficient T statistics dan P-Values

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
IB -> IK	0.382	0.395	0.058	6.542	0.000
IB -> KUR	0.185	0.197	0.078	2.370	0.018
IK -> KUR	0.262	0.288	0.090	2.906	0.004

Based on Table 1.3, it can be concluded that Islamic finance behavior has a P-value of 0.000, which is less than 0.05, indicating that Islamic finance behavior has a significant influence on digital financial inclusion in a positive direction. The original sample value for the Islamic finance behavior variable on digital financial inclusion is 0.382. Additionally, Islamic finance behavior has a P-value of 0.018, which is also less than 0.05, suggesting that Islamic finance behavior has a significant effect on the perception of KUR in a positive direction. The original sample value for the Islamic finance behavior variable on KUR perceptions is 0.185. Furthermore, the digital financial inclusion variable has a P-value of 0.004, which is less than 0.05, demonstrating that the interaction of the digital financial inclusion variable has a significant influence on the perception of KUR, also in a positive direction. The original sample value for this interaction is 0.262.

Table 1.4. Specific Indirect Effects

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
IB -> IK -> KUR	0.100	0.114	0.040	2.511	0.012

Based on Table 1.4, it can be concluded that the influence of Islamic finance behavior, mediated by digital financial inclusion, has a significant effect on the perception of KUR. This is indicated by a P-value of 0.012, which is less than 0.05, confirming the significance of the mediation. Additionally, the original sample value is positive at 0.100, further supporting the positive influence of Islamic finance behavior on the perception of KUR through the mediation of digital financial inclusion.

1.6 Discussion

The Direct Influence of Islamic Finance Behavior on the Perception of the KUR

Based on the results of the research that has been conducted, it can be concluded that Islamic finance behavior has a significant influence on the perception of KUR, thus the hypothesis is accepted. This shows that Islamic Finance Behavior is one of the major factors that can affect the perception of KUR among MSME owners in Tasikmalaya.

Based on interviews with MSME owners, it was found that they run their businesses based on Sharia principles, such as not selling illegal goods and ensuring that a sales agreement is made. Additionally, an interview with one of the marketing personnel at Indonesia Sharia Bank Tasikmalaya revealed that the demand for KUR at Syaria Bank is higher than at other conventional banks. This is evidenced by the faster depletion of KUR quotas at Syaria Bank compared to KUR quotas at other conventional banks. This indicates that the Shariah-based KUR system is more in demand

among MSME owners in Tasikmalaya compared to conventional systems. Due to the high demand for KUR, Islamic banks stopped sales, and there were no additions for existing (new) customers because the KUR quota was full. However, despite this, demand remained high, so the bank continued to wait for confirmation from the Ministry of Communication and Information on whether there would be an additional quota.

The Direct Influence of Digital Financial Inclusion on the Perception of the KUR

Based on Table 1.3, it can be seen that the direct influence of digital financial inclusion on the perception of the KUR is significant or the hypothesis is accepted. So, it can be said that the better and higher the digital financial inclusion of MSME owners, the better the perception of KUR. So, the more MSME owners have access to various types of digital finance products that exist, it will make the perception of KUR increases.

This shows that to improve the perception of KUR among SMEs, they must have digital financial inclusion or have access to various digital financial products well. For MSME owners who do not have access to a variety of digital financial products, they will find obstacles in accessing all information that is not strong enough to have a good perception of the KUR. Therefore, building access and understanding of digital finance is very important for MSME owners.

The Influence of Islamic Finance Behavior on the Perception of KUR With Digital Financial Inclusion as an Intervening Variable

Based on Table 1.4, it can be seen that the influence of Islamic finance behavior on the perception of KUR through digital financial inclusion as an intervening variable has a significant influence or the hypothesis is accepted. This means that when Islamic finance

behavior is supported by digital financial inclusion, it will increase the perception of KUR.

This shows that when the owner of MSMEs already has a belief in the principles of Islam in their business and exhibit Islamic finance behavior in their activities, and also have access to various financial technology platforms, they will have more information and access to external sources of funds that can ultimately improve the perception of KUR for the better. This means that to improve the perception of KUR, the owner of MSMEs must have access to digital finance

1.7 Conclusion

The conclusions of this research are as follows: First, Islamic Financial Behavior has a significant influence on KUR Perception. This is because MSME owners who implement the principles of sharia in their businesses, such as avoiding usury when seeking external capital, demonstrate a positive perception of KUR. Interviews with marketing personnel from Syaria Bank in Tasikmalaya also revealed that demand for KUR in Syaria Bank is higher compared to conventional banks. Second, digital financial inclusion has a significant influence on KUR Perception. This indicates that the better and higher the digital financial inclusion among MSME owners, the more favorable their perception of KUR becomes. Access to various digital finance products enhances their views on KUR. Finally, the influence of Islamic finance behavior on the perception of KUR through digital financial inclusion as an intervening variable has a significant impact. This suggests that when MSME owners not only adhere to Islamic financial principles but also have access to various financial technology platforms, they are better informed and have greater access to external funding sources, which ultimately leads to a more positive perception of KUR.

REFERENCE

Adji, B. P. (2019). Potensi wilayah halal Priangan Timur dikembangkan. *Republika*. https://news.republika.co.id/berita/pxyy92368/potensi-wisata-halal-priangan-timur-dikembangkan

Agustin, G. (2023). The rise of financial technology and its credit risk in Indonesia. *International Journal of Accounting & Finance in Asia Pasific, 6*(2), 98-109. http://doi.org/10.32535/ijafap.v6i2.2318

Agustin Wahyu, I. (2019). Penerapan prinsip-prinsip syariah pada sharia online trading system menurut fatwa Dewan Syari'ah Nasional No. 80/DSN-MUI/III/2011. *Jurnal Ilmu Syariah*, *7*(2), 309–322.

Alamanda, D. T., Wibowo, L. A., Munawar, S., & Nisa, A. K. (2021). The interest of technology adoption in e-commerce mobile apps using modified Unified Theory of Acceptance and Use of Technology 2 in Indonesia. *International Journal of Applied Business and International Management*, *6*(3), 35–45. https://doi.org/10.32535/ijabim.v6i3.1327

Binh, K. B., Jhang, H., Park, D., & Ryu, D. (2020). Capital markets for small- and medium-sized enterprises and startups in Korea. *Journal of Asian Finance, Economics and Business*, *7*(12), 195–210. https://doi.org/10.13106/JAFEB.2020.VOL7.NO12.195

Boubker, O., Douayri, K., & Ouajdouni, A. (2021). Factors affecting intention to adopt Islamic financing: Evidence from Morocco. *MethodsX*, *8*(June), 101523. https://doi.org/10.1016/j.mex.2021.101523

Chen, Z., Li, Y., Lin, Y., & Pan, J. (2023). Business environment and corporate financing decisions: From the perspective of dynamic adjustment of capital structure. *Finance Research Letters*, *58*(PB), 104461. https://doi.org/10.1016/j.frl.2023.104461

Coordinator of the Indonesian Ministry of Economic Affairs. (2023). *Dorong UMKM naik kelas dan go export, pemerintah siapkan ekosistem pembiayaan yang terintegrasi*. Kementerian Koordinator Bidang Perekonomian Republik Indonesia. https://www.ekon.go.id/publikasi/detail/5318/dorong-umkm-naik-kelas-dan-go-export-pemerintah-siapkan-ekosistem-pembiayaan-yang-terintegrasi

Guo, F., Wang, J., Cheng, Z., Li, Y., Wang, F., & Wei, A. (2019). The Peking University digital financial inclusion index of China (2011-2018). Institute of Digital Finance, Peking University, April, 1–70.

Indonesia Bank. (2018). *Mengenal Financial Teknologi*. Bank Indonesia. https://www.bi.go.id/id/edukasi/Pages/mengenal-Financial-Teknologi.aspx

Indonesia Bank Regulations Number: 17/10/PBI/2008 about Sharia Bank Products and Sharia Business Units.

Iqbal, Z., & Mirakhor, A. (2017). *Ethical Dimensions of Islamic Finance: Theory and Practice*. Springer.

Korajczyk, R. A., & Levy, A. (2003). Capital structure choice: Macroeconomic conditions and financial constraints. *Journal of Financial Economics*, *68*, 75–109.

Lauer, K., & Lyman, T. (2015). *Digital financial inclusion: Implications for customers. 2nd GPFI Conference on Standard-Setting Bodies and Financial Inclusion (GPFI 2014).* CGAP. www.cgap.org/photos-videos/benefits-challenges-digital-financial-inclusion

Mubeen, R., Han, D., Abbas, J., Raza, S., & Bodian, W. (2022). Examining the relationship between product market competition and Chinese firms performance: The mediating impact of capital structure and moderating influence of firm size. *Frontiers in Psychology*, *12*(May), 1–13. https://doi.org/10.3389/fpsyg.2021.709678

Mujiatun, S. (2023). The role of the community in increasing Sharia financial literacy and inclusion. *International Journal of Accounting Finance in Asia Pacific, 6*(1), 1–11. https://doi.org/10.32535/ijafap.v6i1.2119

Regulation of the Coordinating Minister for Economic Affairs Republic of Indonesia Number 1 of 2023 about amendment to the Regulation of the Coordinating Minister for Economic Affairs Republic of Indonesia Number 1 of 2022 concerning implementation guidelines People's Business Credit.

Regulation of the Minister of Finance of the Republic of Indonesia Number 12 of 2024 concerning guidelines for the use of credit program information systems.

Sugiyono, S. (2020). *Metode Penelitian Kuantitatif, Kualitatif dan Kombinasi (Mixed Methods)*. Alfabeta.

Sugiyono, S. (2015). *Statistik Nonparametris Untuk Penelitian*. Alfabeta.

Suryani, E. S., Wahyulina, S., & Hidayati, S. A. (2019). Akses usaha kecil dan mikro (UKM) terhadap kredit usaha rakyat (KUR) dan dampaknya terhadap perkembangan usaha: Kasus UKM di Kota Mataram. *Jurnal Sosial Ekonomi Dan Humaniora*, *5*(2), 186–202. https://doi.org/10.29303/jseh.v5i2.61

Utami, W., & Abdullah, A. (2023). Flexing dalam pandangan Islamic behavioral finance. *Jurnal Ilmiah Ekonomi Islam*, *9*(3), 3502. https://doi.org/10.29040/jiei.v9i3.9206

Wang, X., & Fu, Y. (2022). Digital financial inclusion and vulnerability to poverty: Evidence from Chinese rural households. *China Agricultural Economic Review*, *14*(1), 64–83. https://doi.org/10.1108/CAER-08-2020-0189

Chapter 2. Financial Freedom: The Role of Effective Financial Management and Investment Experience

.2.1. Abstract

The significance of this research is related to the methods used to achieve financial freedom through the role of effective financial management and investment experience for MSME players. This research aims to analyze financial freedom in terms of effective financial management and investment experience among MSMEs in Madura. The contribution of this research is to provide knowledge and understanding to MSME players about effective financial management and investment experience in an effort to achieve financial freedom. This research is quantitative in type. MSME actors in the Madura region are the population in this study, while the sampling technique uses convenience sampling and data collecting techniques through distributing questionnaires. Data were processed using multiple linear regression analysis. The research results show that effective financial management influences financial freedom at a confidence level of 95% or an error rate of 5%. Meanwhile, investment experience has an influence on financial freedom at a confidence level of 90% or an error rate of 10%. Thus, effective financial management and investment experience play a good role in efforts to achieve financial freedom for MSMEs in Madura.

2.2 Introduction

Effective financial management is essential in achieving financial freedom, which is a condition where a person has the financial strength to meet their needs without having to rely on active income. Financial freedom is not just about having more money but about managing finances wisely to ensure long-term financial stability and security. In achieving financial freedom, effective financial management involves several key aspects, such as budget planning, savings, investment, and risk management. These steps

aim to ensure that the income owned is not only used for daily needs but also allocated to achieve long-term goals, such as retirement, investment, and emergency funds. According to research, good financial management can improve a person's ability to control spending and increase savings capacity (Garman & Forgue, 2018; Sululing et al., 2018). In addition, discipline in preparing a budget is the first step to achieving sustainable financial balance (Kapoor et al., 2019). With a disciplined budget, a person can allocate income more efficiently and reduce debt or financial burdens that can hinder the achievement of financial freedom.

Effective financial management has a significant impact on financial freedom, which can be interpreted as individuals having full control over their finances, allowing them to meet their living needs without excessive financial worries. Financial freedom is determined not only by the amount of income but also by a person's ability to manage expenses, save, and invest strategically. Several studies in the last decade have shown how good financial management has a positive impact on achieving financial freedom. Lusardi and Mitchell (2014) in their research highlighted the importance of financial literacy in effective money management. They found that anyone with high financial literacy tends to be able to manage their money, avoid unproductive debt, and achieve financial stability faster than those with low financial literacy. Financial education plays an important role in shaping positive financial behavior, thereby increasing an individual's chances of achieving financial freedom. This shows that the ability to manage finances effectively is the foundation for achieving financial independence. In addition, Xiao and O'Neill (2018) showed that individuals who disciplinedly manage their budget, such as controlling expenses and saving regularly, tend to have better financial conditions.

Financial freedom can be created through investment, which provides an opportunity for individuals to fulfill their needs and expectations. The most important thing in investment is choosing the right investment instrument so that the desired goals can be achieved. The relationship between investment decisions and financial freedom is very close because investment decisions are one of the key factors that influence the ability of a person or organization to achieve financial freedom (Sari, 2021). Wise investment decisions can help individuals or organizations accumulate wealth and gradually allocate financial resources to assets or projects that generate profitable returns so that they can enlarge their investment portfolio over time. Research by Lim and Teo (2020) suggests that investments made in a planned and targeted manner also contribute to financial freedom, the results of the study explain that individuals who invest early have a greater opportunity to enjoy passive income and accumulate wealth so that they can achieve financial freedom faster, which means that the right investment provides a guarantee of long-term financial security.

In line with the research of Nurlaila & Nurdin (2020) and Yevitayani et al. (2023), they showed that investment is an action in managing money that is increasingly effective in the future. Investment based on experience is an investment activity that is carried out according to the experience possessed, and not for experimentation, following trends, and influenced by advertisements/friends so as to avoid the risk of loss on investment. Investment by looking at experience will provide high confidence for capital owners in the success of their investment so that investment goals will be achieved.

Nurvitasari (2021) and Ayaa & Peprah 2021) explained that investment is a financial instrument that has an element of uncertainty that creates risk for investors, but investment promises great profits for investors. The higher the investment

risk, the greater the profit obtained by investors. Based on this background, the purpose of the study is to measure the effect of effective financial management and investment experience on financial freedom.

2.3 Literature Review

Financial Freedom

Financial freedom is described as a state of an individual who has full control over their finances so that they become calmer in meeting their life needs. This freedom allows a person to live their life according to their wishes and goals without being burdened by financial problems (Sambharakreshna et al., 2023a). In other words, financial freedom means having enough assets and passive income to cover their living needs, even if a person decides to stop working.

Effective Financial Management

Effective financial management is defined as something that plays a role in achieving targets (Mashud et al., 2021; Yevitayani et al., 2023). Effective financial management plays a role in achieving financial freedom, where a person has the financial strength to meet needs that do not have to depend on the main income. Financial freedom is not only about having more money but also about how to manage finances wisely so as to provide certainty of financial stability and security in the long term.

Investment is an effort that can be made by someone to have good and effective management. Efforts to achieve financial freedom through effective financial management involve several aspects, such as budget planning, investment, savings, and risk management. This stage aims so that the income owned is not only to meet daily needs but also reserves or allocated to achieve long-term goals, such as retirement, investment, and emergency funds.

Effective financial management has a significant impact on financial freedom. This shows that a person has good control over their finances. Thus, a person's ability to manage their income well to be spent wisely will have a positive impact on efforts to achieve financial freedom. This is supported by the results of research by Lusardi and Mitchell (2014), explaining that individuals with knowledge and ability to manage money well are better able to manage their money, avoid unproductive debt, and achieve financial stability faster than those who lack knowledge of managing finances. Therefore, the ability to manage finances effectively is a strong foundation or basis for achieving financial independence. Xiao and O'Neill (2018) show that individuals who discipline themselves to manage their budgets, such as controlling spending and saving regularly, tend to have better financial conditions. Perry and Moris (2005) state that financial problems are quite long, negative social life and other social problems are due to failure to manage money.

There are variables that can explain financial freedom, namely financial management. The main foundation for someone to manage their income effectively in order to generate good income and achieve financial freedom is to have a good understanding of financial management. Someone with better financial management skills tends to have responsibility for their financial behavior. This is in line with research conducted by Afaf & Yendrawati (2021) and Hogart & Hilgerth (2002), which states that financial management is important for creating financial freedom, especially for MSME actors, because it can minimize the occurrence of bankruptcy. The method that can be used to provide knowledge of good financial management is by providing socialization activities to the community, especially MSME actors, about effective financial management so that MSME actors can contribute to advancing the Indonesian economy and prospering the community. According to the explanation above, the following hypothesis is derived:

H1: Effective financial management has an impact on financial freedom.

Investment Experience

Investment experience is something that an investor gets from his/her investment activities in various ways/financial instruments. Investment experience has a significant influence on achieving financial freedom. This experience not only helps someone understand the risks and opportunities in various investment instruments but also provides confidence in making wiser financial decisions. Experience in finance is an activity that has been related to financial activities that can be used as a basis for managing money (Pritazahara et al., 2015).

Experience in managing money is an individual's experience of financial activities, such as conservative capital loans, bank loans, alternative loans, and other investment activities (Purwidianti & Tubastuvi, 2019). If a person's financial experience is better, then the individual can make better financial decisions. If an individual's investment experience is good, then he/she is also better at understanding the possibility of financial risks that can occur (Ameliawati & Setiyani, 2018; Lutfi, 2020).

Experience in investing has a significant influence on achieving financial freedom. This experience not only helps a person understand the risks and opportunities in various investment instruments but also provides confidence in making wiser financial decisions. Several studies in the last decade have shown that individuals who have investment experience are more likely to achieve financial stability and financial freedom faster. The more experience an individual has in managing money, the better he or she is at making financial decisions. Yuvitayani et al. (2023) argue that experience in investing provides a safe opportunity to avoid

losses and can measure expected profits, thereby achieving effective financial freedom.

MSME actors can use the experience as a way to make investment decisions for both men and women so that MSME actors are able to increase their income not only from operational activities but also from investment activities. Van Rooij et al. (2018) stated that investment experience increases a person's financial knowledge, thereby strengthening their understanding to make financial decisions that support financial freedom. This experience also encourages individuals to have a long-term view of their finances so that they tend to be more disciplined in investing consistently. Gerrans and Hershey (2021) explained that investment experience has a positive effect on retirement planning and financial freedom, meaning that individuals who are experienced in investing are more proactive in planning long-term finances, especially for retirement, and have a good understanding of the need to accumulate assets to maintain their lifestyle after they are no longer working. Thus, investment experience allows someone to build a more stable and targeted financial strategy. Lim et al. (2022) found that investment experience also builds better risk tolerance. The results of the study explain that investment experience helps individuals manage their emotions when facing market fluctuations, which is important for building a healthy portfolio and achieving financial freedom. According to the explanation, the following hypothesis is derived:

H2: Investment experience has an impact on financial freedom

2.4 Research Method

This research is quantitative in nature, with the aim of testing

theories and hypotheses in research with significant or insignificant results. The population of this study is MSME business people in Madura, and the research sample is MSME actors in various types of businesses such as batik craftsmen/sellers, culinary (food), and others operating in the Madura region. The research sampling technique was carried out by convenient sampling used in sampling with conditions and intentions that met the specified requirements. Primary data was used in this study, which was obtained by distributing questionnaires to respondents, namely MSME actors. The questionnaire is in the form of a structured statement where respondents will later provide answers to certain limited answer choices.

Operational Definition of Variables

The financial freedom variable (Y) is the dependent (influenced) in this study. Financial freedom is defined as a state where individuals have full influence on their finances so that they have peace of mind in meeting their needs. This freedom allows a person to live their life according to their desires and goals without being burdened by financial problems (Sambharakreshna et al., 2023b)

Effective Financial Management Variable (X1)

Effective financial management is defined as an activity that plays a role in achieving goals. Investment is an effort that can be made by individuals to have good and effective management Yevitayani et al. (2023).

Investment Experience Variable (X2)

Experience in finance is an activity that has been related to financial activities that can be used as a basis for managing money (Pritazahara et al., 2015). Experience in managing money is an individual's experience of financial activities, such as conventional loans, bank debt, other alternative loans, and other investments (Purwidianti & Tubastuvi, 2019).

Measurement of effective financial management variables (X1) and investment experience (X2) using a list of questions with a Likert scale of 1-5, which includes scores of 1. strongly disagree, 2. disagree, 3. less agree (KS), 4. Agree, and 5. strongly agree.

Analysis Method

Descriptive statistical analysis describes the results of respondents' answers to the collected questionnaires. Testing the validity of the data through Item Correlation, if the calculated r-value> r table, then the research data is valid. Data reliability is tested through Cronbach's Alpha coefficient. If the test results show a Cronbach's Alpha value > 0.6, then the data is reliable. The model was used to test variables X1 and X2 against Y with multiple linear regression. The regression model is formulated:

$$Y = \alpha + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X3 + e$$

Information:

α: Constant
β: Regression Coefficient
e: error
Y: Financial Freedom
X1: Effective Financial Management
X2: Investment Experience

2.5 Results

Table 2.1. Respondent Profile

Characteristics	Frequency	Percentage (%)
Type of Business		
Batik	21	43.7%
Handicrafts	1	2.1%
Food	20	41.7%
Clothing	5	10.4%
Gift Business	1	2.1%
Business Duration		
1-5 years	16	33.3%

6-10 years	4	8.3%
11-15 years	5	10.4%
More than 15 years	23	48%
Total	48	100%

This study has a response with a total of 48 people who are classified into types of businesses and lengths of business. Description of the respondent profile in Table 2.1 describes MSME actors based on the type of business that is dominant, which is the batik and food seller/shop business, including the Madura food souvenir center. The length of MSME business varies as much as 49% are entrepreneurs who have been established over 15 years, and 34% are included in the group that has been established for 1-5 years.

Descriptive Analysis

The results of the descriptive statistical analysis in this study are as follows:

Table 2.2. Descriptive Statistics Example (N = 48)

Construction	M	SD
Financial Freedom	3.78	0.88
Effective Financial Management	3.66	0.77
Investment Experience	3.83	0.85

Note. M = Mean, SD = Standard Deviation.

Table 2.2 explains the statistical description of the variables studied. The statistical description contains information about financial freedom, which has a mean of 3.78 and a standard deviation of 0.88, the data shows that, in general, respondents have good financial freedom, with moderate variation between respondents.

Effective financial management has a mean of 3.66 and a standard deviation of 0.77. This indicates that the respondents' effective

financial management is at a fairly good level. The lower standard deviation compared to the first variable indicates that there is fairly good consistency in financial behavior between respondents. Investment Experience has a mean of 3.83 and a standard deviation of 0.85, indicating that the average spiritual intelligence of respondents is high. Its variability is also lower than other variables, meaning that respondents have almost uniform levels of investment experience.

Data Quality Test

The validity test is conducted by comparing the significance value (2-tailed) with α 5% and the Pearson correlation value. The results of the data validity test explain that all items in the questionnaire have a significance value below 5% and a positive Pearson correlation value. This means that every question or statement in the questionnaire can be considered valid, and thus, the questionnaire is suitable for use in research.

Table 2.3. Reliability Statistics

Variables	Cronbach's Alpha
Financial Freedom	0.850
Effective Financial Management	0.732
Experience	0.864

Reliability testing is shown in Table 3; each variable has a Cronbach's Alpha value above 0.6, so the questionnaire can be considered reliable. This means that this research instrument has a good consistency in measuring the variables to be tested.

Table 2.4. Multiple Linear Regression Coefficients

Construction	B	SE B	β
(Constant)	0.659	0.470	0.000**
Effective Financial Management (X1)	0.541	0.173	0.474
Experience (X2)	0.298	0.157	0.288

Note. $R^2 = 0.505$ ($p < 0.05$) ** $p < 0.05$

According to the data in Table 2.4 of multiple linear regression, formulate the equation:

$$Y = 0.659 + 0.541X1 + 0.298X2$$

This result explains the value of the regression coefficient (B), which means the magnitude of the influence of the effective financial management and investment experience variables on financial freedom. This coefficient represents how much the dependent variable of financial freedom changes if the effective financial management and investment experience variables (independent) change by one unit, assuming other variables remain constant. The constant value of 0.659 means that if the independent variable has a value of 0, then financial freedom will have a value of 0.659. This constant explains the basic value or intercept in the regression model.

The coefficient value of effective financial management of 0.541 means that every one-unit increase in effective financial management will increase financial freedom by 0.541 if other variables are constant. So, effective financial management has a significant positive effect on financial freedom.

The investment experience coefficient value of 0.298 means that every one-unit increase in investment experience will increase financial freedom by 0.298 if other variables are constant. So, investment experience also makes a positive contribution to financial freedom.

R Square is quite high, which is 0.505 or 50.5%, which indicates effective financial management and investment experience, explaining financial freedom in the regression model. Meanwhile,

49.5% is influenced by other factors. Therefore, the regression equation in this study is very good.

Classical Assumption Test

Table 2.5. Normality Test

	Unstandardized Residual
N	48
Test Statistic	0.059
Asymp. Sig. (2-tailed)	0.200[c]

Table 2.5 explains the results of the data normality test using the Kolmogorov-Smirnov Test, the data recorded a significance value of 0.200 > 0.05, so the research data is said to be normal.

Table 2.6. Multicollinearity Test

Variable	Collinearity Statistics	
	Tolerance	VIF
Effective Financial Management (X1)	0.478	2.091
Experience (X2)	0.478	2.091

Table 2.6 explains the results of the multicollinearity test where the tolerance value is > 0.10 and the VIF value is < 10 so that variables X1 and X2 are not related to each other (free from multicollinearity).

Table 2.7. Heteroscedasticity Test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.766	0.287		2.670	0.011
	Effective Financial Management (X1)	0.002	0.106	-0.003	-0.016	0.988

	Experience (X2)	-0.073	0.096	-0.162	-0.760	0.451

Table 2.7 below explains the results of the heteroscedasticity test with the Glejser test. The significance value of variables X1 and X2 is > 5%, so the regression equation is free from heteroscedasticity.

Table 2.8. Hypothesis Test (T-Test)

Model		T	Sig.
1	(Constant)	1.403	0.167
	Effective Financial Management (X1)	3.125	0.003
	Experience (X2)	1.895	0.065

Table 2.8 explains the results of the T-test (hypothesis). The hypothesis test recorded a significance value of effective financial management (X1) of 0.003 <5%, so it is concluded that the first hypothesis is accepted, meaning that effective financial management has an influence on financial freedom. Investment experience (X2) has a significance value of 0.065 y> 5%, so the second hypothesis is rejected, it is concluded that investment experience has no influence on financial freedom. However, if the α value is assumed to be 10%, then the significance value of experience is 0.065 <10%, so that investment experience has an effect on financial freedom, and the second hypothesis is accepted.

2.6 Discussion

The Influence of Effective Financial Management on Financial Freedom

According to the test (T-test), effective financial management has an influence on financial freedom. Lusardi and Mitchell (2014) stated that individuals with good knowledge/literacy and the ability to manage money would be better able to manage their money, avoid unproductive debt, and achieve financial stability

faster than those who lack knowledge of managing finances. Therefore, the ability to manage finances effectively is a strong foundation or basis for achieving financial independence. Xiao and O'Neill (2018) showed that individuals who discipline themselves to manage their budgets, such as controlling expenses and saving regularly, tend to have better financial conditions. Individuals who are able to manage their money better have responsibility for their financial behavior. This statement is supported by Hogart and Hilgerth (2002) and Afaf and Yendrawati (2021), who say that financial management is very important to create financial freedom, especially for MSME actors, because it can minimize the occurrence of bankruptcy. The method that can be used to provide knowledge of good financial management is by providing socialization activities to the community, especially MSME actors, about effective financial management so that MSME actors can contribute to advancing the Indonesian economy and prospering the community. Good financial management is the foundation for achieving financial freedom.

The Influence of Investment Experience on Financial Freedom

The interpretation of the T-test is that investment experience does not affect financial freedom at α 5%. However, investment experience has an effect on financial freedom at α 10%. Achieving financial freedom is not only about managing money wisely but also learning from personal experience. Over time, these experiences shape an individual's approach to financial decisions, help them avoid common mistakes, and build the knowledge needed to achieve financial independence. One of the most important lessons that experience teaches is to budget and live within one's means. For MSMEs in the Madura region, experience also plays an important role in understanding and managing finances. This is evidenced by the highly positive response (agree) in achieving financial freedom. Investment experience can provide

a strong belief that the investment is safe from the risk of loss so that high profits can be realized.

Another aspect of financial freedom that is influenced by experience is the ability to handle unexpected financial challenges. Pritazahara et al. (2015) said that experience can be used as a basis for managing finances. With experience, individuals learn how to navigate the market, understand risk tolerance, and make the right investment choices. The ups and downs of the stock market, real estate investments, or other financial ventures provide valuable lessons in patience, diversification, and long-term planning. Those who have experienced market corrections or losses are often better prepared to stay calm during future economic crises and continue building wealth over time. This knowledge is essential for generating passive income, the foundation of financial freedom.

In addition, experience helps people identify and focus on their financial goals. Sabri et al. (2023) and Lutfi (2020) stated that experience plays a significant role in shaping one's path to financial freedom. Through budgeting, debt management, handling financial crises, and wise investing, people learn valuable lessons that guide them toward financial independence. The accumulation of these experiences allows individuals to make smarter financial decisions, stay focused on their long-term goals, and ultimately achieve the freedom to live their lives the way they want Purwidianti and Tubastuvi, (2019). The results of research by Ameliawati & Setiyani (2018) and Lutfi (2020) stated that if a person's financial experience is better, then he or she can make better financial decisions. In addition, he also has a better understanding of financial risk. Yevitayani et al. (2023) argue that experience in investing provides a safe opportunity to avoid losses and can measure the expected profits, thereby achieving effective financial freedom.

2.7 Conclusion

Based on the test results, it can be concluded that investment decisions of men and women based on effective financial management have a significant influence on financial freedom. Effective financial management can bring someone who runs an MSME to achieve independence from financial pressure. Effective financial management provides a positive direction in financial freedom, so the better/higher the financial management is carried out effectively, the higher the achievement of financial freedom.

Investment experience has an influence on financial freedom even at the α level of 10%. Experience has a positive direction toward financial freedom, meaning that the greater the experience possessed by MSME actors, the higher/greater financial freedom will be achieved. With high investment experience, it provides a sense of security for MSME actors so that success in increasing investment will be able to strengthen good financial behavior and motivate MSME actors to stay on the right track

REFERENCE

Afaf, I. N., & Yendrawati, R. (2021). Sosialisasi pentingnya mencapai financial freedom dalam mengatur keuangan di masa pandemi bagi UMKM. *Rahmatan Lil'Alamin Journal of Community Services*, 15-19. https://doi.org/10.20885/RLA.Vol1.iss1.art3

Ameliawati, M., & Setiyani, R. (2018). The influence of financial attitude, financial socialization, and financial experience to financial management behavior with financial literacy as the mediation variable. *KnE Social Sciences*, 811-832. https://doi.org/10.18502/kss.v3i10.3174

Awais, M., Laber, M. F., Rasheed, N., & Khursheed, A. (2016). Impact of financial literacy and investment experience on risk tolerance and investment decisions: Empirical evidence

from Pakistan. *International Journal of Economics and Financial Issues*, *6*(1), 73-79.

Ayaa, M. M., & Peprah, W. K. (2021). Gender difference in investment decision making: evidence from ghana. *International Journal of Economics, Commerce, and Management*, 415-425.

Barber, B. M., & Odean, T. (2001). Boys will be boys: Gender, overconfidence, and common stock investment. *The Quarterly Journal of Economics*, *116*(1), 261-292. https://doi.org/10.1162/003355301556400

Bayu, I. (2024). *6 Jenis instrumen keuangan bagi generasi muda.* Media Keuangan. https://mediakeuangan.kemenkeu.go.id/article/show/6-jenis-instrumen-investasi-yang-cocok-bagi-generasi-muda.

Demirgüç-Kunt, A., Klapper, L. F., & Panetta, F. (2018). Financial inclusion and the role of gender. *World Bank Policy Research Working Paper*.

Fachrudin, K. R., & Fachrudin, K. A. (2016). The influence of education and experience toward investment decision with moderated by financial literacy. *Polish Journal of Management Studies*, *14*. https://doi.org/10.17512/pjms.2016.14.2.05

Fridana, I. O., & Asandimitra, N. (2020). Analysis of Factors Affecting Investment Decisions (Study on Female Students in Surabaya). *Estuary Journal of Economics and Business*, *4*(2), 396.

Haque, M. I., Ahmad, S., & Azad, M. S. (2020). Mapping of scientific literature on Islamic Economics, Banking and Finance 1955 to 2020. *Library Philosophy and Practice*, *2020*, 1-29.

Hogarth, J. M., & Hilgert, M. A. (2002). Financial knowledge, experience and learning preferences: Preliminary results from a new survey on financial literacy. *Consumer interest annual*, *48*(1), 1-7.

Kiyosaki, R. T. (1997). *Rich Dad Poor Dad: What the Rich Teach Their*

Kids About Money That the Poor and Middle Class Do Not. Warner Books Edition.

Lutfi, M. (2021). *Pengaruh Pengetahuan Keuangan dan Pengalaman Keuangan terhadap Kesejahteraan Finansial dengan Perilaku Pengelolaan Keuangan sebagai Mediasi* [Undergraduate thesis, STIE Perbanas Surabaya]. Repositori Universitas Hayam Wuruk Perbanas. http://eprints.perbanas.ac.id/7676/

Mashud, M., Mediaty, M., & Pontoh, G. T. (2021). The effect of financial literature, lifestyle and income of parents on student financial management behavior. *Journal of International Conference Proceedings*, 4(3), 256-264. http://doi.org/10.32535/jicp.v4i3.1315

Nelwan, A., & Tulung, J. E. (2018). The effect of dividend policy, financing decisions and investment decisions on firm value in blue chip shares listed in BEI. *Pengaruh Kebijakan*, *2878*, 2878-2887.

Nurlaila, F., & Nurdin, R. (2020). Determinant of loyalty and its impact on employee performance of aceh financial management agency (BPKA). *International Journal of Scientific and Management Research*, *3*(2), 125-139.

Nurvitasari, D., & Rita, M. R. (2021). Confirmation bias dalam keputusan investasi dana pensiun dengan moderasi gender. *Jurnal Visi Manajemen*, *7*(2), 102-119. https://doi.org/10.56910/jvm.v7i2.162

Pasek, G. W. (2022). financial literacy in investment decision consideration review from gender. *Journal of Professional Accounting,* XX, 341–349.

Pritazahara, R., & Sriwidodo, U. (2015). The influence of financial knowledge and financial experience on investment planning behavior with self control as a moderating variable. *Journal of Economics and Entrepreneurship*, *15*(1), 28-37.

Purwidianti, W., & Tubastuvi, N. (2019). The effect of financial literacy and financial experience on SME financial behavior

in Indonesia. *JDM (Jurnal Dinamika Manajemen)*, *10*(1), 40-45.

Ramsey, D. (2003). *The Total Money Makeover: A Proven Plan for Financial Fitness*. Thomas Nelson.

Ratmojoyo, Y. S., Supriyanto, T., & Nugraheni, S. (2021). Faktor-faktor yang mempengaruhi minat berinvestasi saham syariah. *Etihad: Journal of Islamic Banking and Finance*, *1*(2), 115-131. https://doi.org/10.21154/etihad.v1i2.3236

Raval, V., & Vyas, K. (2013). *Financial freedom experience of Indian male and female executives*. Munich Personal RePEc Archive. https://mpra.ub.uni-muenchen.de/id/eprint/49460

Sabri, M. F., Cook, C. C., & Gudmunson, C. G. (2012). Financial well-being of Malaysian college students. *Asian Education and Development Studies*, *1*(2), 153-170. https://doi.org/10.1108/20463161211240124

Safeena, R., Kammani, A., & Date, H. (2014). Assessment of internet banking adoption: An empirical analysis. *Arabian Journal for Science and Engineering*, *39*, 837-849. https://doi.org/10.1007/s13369-013-0707-x

Sambharakreshna, Y., Kusumawati, F., & Wulandari, A. (2023a). The financial freedom approach in MSME financial management in the tourism sector. *Journal of Economics, Finance and Management Studies*, *6*(3), 1272-1283. https://doi.org/10.47191/jefms/v6-i3-29

Sambharakreshna, Y., Kusumawati, F., & Wulandari, A. (2023b). The influence of financial management using the financial freedom approach, financial technology, and social capital on the income of MSMEs in the tourism sector. *The SeyBold Report*, *18*(12), 1873-1886.

Sani, N., & Paramita, V. S. (2024). Pengaruh pengalaman investasi, risk tolerance, dan sosial media terhadap keputusan investasi dengan literasi keuangan sebagai variabel moderasi (studi pada investor Generasi Z Jawa

Barat). *Equilibrium: Jurnal Ilmiah Ekonomi, Manajemen Dan Akuntansi*, *13*(1), 134-147. https://dx.doi.org/10.35906/equili.v13i1.1886

Sari, M. R. (2021). Keputusan investasi milenial perspektif pengetahuan keuangan, perilaku keuangan dan sikap keuangan. *Ultimaccounting Jurnal Ilmu Akuntansi*, *13*(2), 173-186. https://doi.org/10.31937/akuntansi.v13i2.1757

Sari, M., Nurhayati, N. S., & Yuliawati, T. (2023). Efek faktor moderasi gender pada relasi financial literacy dan financial ignorance terhadap perilaku keuangan. *Image: Jurnal Riset Manajemen*, *11*(2), 158-163. https://doi.org/10.17509/image.2023.015

Simanjuntak, S. M., Cahyaningrat, A. G. R., Kusuma, D. M. A. P., Kanela, I. N. J. W., Susanto, L. A., & Komalasari, F. (2022, July). The effect of investment experience and financial literacy toward financial behavior on investment decision. In *Proceeding of the International Conference on Family Business and Entrepreneurship* (Vol. 3, No. 1).

Stanley, T. J., & Danko, W. D. (1996). *The Millionaire Next Door: The Surprising Secrets of America's Wealthy*. Longstreet Press.

Sululing, S., Ode, H., & Sono, M. G. (2018). Financial management model village. *International Journal of Applied Business and International Management*, *3*(2), 105-116. https://doi.org/10.32535/ijabim.v3i2.163

Suprina, R., Solikin, I., Purnomo, B. S., & Nurbaeti, N. (2023). Gender and investment behavior: A review and bibliometric analysis. *JPIM (Jurnal Penelitian Ilmu Manajemen)*, *8*(1), 35-47.

Suyanti, E., & Hadi, N. U. (2019). Analisis motivasi dan pengetahuan investasi terhadap minat investasi mahasiswa di pasar modal. *Edunomic: Jurnal Ilmiah Pendidikan Ekonomi Fakultas Keguruan Dan Ilmu Pendidikan*, *7*(2), 108-116. https://doi.org/10.33603/ejpe.v7i2.2352

Walczak, D., & Pieńkowska-Kamieniecka, S. (2018). Gender differences in financial behaviours. *Engineering*

economics, *29*(1), 123-132. https://doi.org/10.5755/j01.ee.29.1.16400

World Bank. (2020). *Women, Business and the Law 2020*. World Bank.

World Economic Forum. (2021). *Global Gender Gap Report 2021*. World Economic Forum.

Yevitayani, A. P., Pamungkas, A. A., Rosa, A., Kurniawan, A. C., Ferio, F., Wanasiri, Y., & Hidayati, A. (2023). Eksplorasi peran gender dalam pemilihan investasi reksa dana untuk meraih kebebasan waktu dan finansial. *Journal of Management and Business Review, Volume 20 Nomor 3, Special Issue KNRM XII 2023, pp. 332-353*. https://doi.org/10.34149/jmbr.v20i3.591

Chapter 3. Navigating Financial Performance and Firm Value in State-Owned Enterprises: The Moderating Role of Dividend Payouts During Uncertainty Period

3.1 Abstract

This study aims to examine and analyze the effect of firm performance (ROE) and firm characteristics (size) on firm value (PBV). The study involves two control variables: situation and industry type. Additionally, this research uses the Dividend Payout Ratio (DPR) variable as a moderator for the relationship between ROE and PBV, as well as for the relationship between Size and PBV. This study includes 21 state-owned enterprises (SOEs) listed on the Indonesia Stock Exchange (IDX), with a total of 345 firm-year observations. The findings of this study show that the ROE and Size variables have a negative and significant effect on PBV. Meanwhile, the DPR variable positively moderates the relationship between ROE and PBV, as well as between Size and PBV. The situation and industry-type variables were found to have no effect on PBV. The implications are that companies need to be cautious in relying on ROE or large size as indicators to increase PBV. An appropriate dividend policy can be an important strategy to enhance or maintain firm value, particularly for large companies facing challenges in sustaining PBV. Companies need to balance dividend policies with investments for growth and manage organizational complexity to improve PBV

3.2 Introduction

State-owned enterprises (BUMN or SOEs) play a critical role in Indonesia's economy, particularly during periods of economic uncertainty. These enterprises are significant contributors to national revenue and serve essential functions in stabilizing the economy and promoting social welfare (Satutikirono & Sunitiyoso, 2021). The ownership of SOEs remains largely under government control and continues to be viewed as a key driver of the national

economy (Soejono & Heriyanto, 2018). Their multifaceted roles include market regulation, infrastructure development, and provision of public services, which become even more pronounced in times of crisis. Firstly, SOE is pivotal in maintaining economic stability. During economic downturns, such as those experienced during the COVID-19 pandemic, the government has relied heavily on these enterprises to sustain economic activity. The Ministry of SOEs has encouraged mergers among SOEs to enhance competitiveness and operational efficiency, thereby ensuring that these entities can better support the national economy (Dewi et al., 2023). This strategic consolidation aims to create stronger entities capable of weathering economic shocks and contributing to recovery efforts (Prastiyono, 2024).

Moreover, SOEs have been instrumental in executing large-scale infrastructure projects, which are vital for stimulating economic growth and creating jobs, particularly in challenging economic climates (Utomo, 2022). Secondly, the financial performance of SOE is crucial for their operational sustainability and their ability to fulfill their roles effectively. Research indicates that the financial health of these enterprises directly impacts their capacity to contribute to national development (Prastiyono, 2024). The government has recognized this and has implemented policies to bolster the financial performance of SOE, including strategic investments and subsidies. However, there are concerns regarding the dependency on government support, which can hinder their independence and operational efficiency (Assagaf et al., 2017).

Signaling theory posits that firms communicate their quality and value through specific signals, particularly in environments characterized by information asymmetry. High financial metrics such as return on equity (ROE) serve as positive signals to investors, indicating strong operational efficiency and profitability (Colombo et al., 2019). For instance, firms that consistently report high ROE can attract investment by signaling their capability to

generate returns, thereby enhancing their market value (Priani, 2023). This theory is particularly relevant in the context of dividend policies, where consistent and increasing dividend payouts can signal financial health and stability to investors, reinforcing their confidence in the firm's future prospects (Chauhan & Rao, 2022). Conversely, a lack of dividends or erratic dividend policies may signal financial distress or management inefficiency, potentially leading to a decline in firm value (Dawar, 2014).

Agency theory, on the other hand, addresses the conflicts of interest that arise between shareholders (principals) and managers (agents) (Lumapow, 2018). This theory suggests that managers may prioritize personal goals over shareholder wealth maximization, leading to agency costs that can detract from firm value (Ahmed et al., 2023). For example, if managers engage in excessive risk-taking or invest in projects that do not align with shareholder interests, this can negatively impact financial performance metrics and, consequently, firm value (Bhatt & Bhatt, 2017). The theory also highlights the importance of governance structures in mitigating these agency problems. Effective corporate governance helps align the interests of managers and shareholders, leading to improved performance and increased company value (Jiraporn et al., 2011; Wahyudin & Solikhah, 2017).

Additionally, agency costs play a role in shaping the relationship between capital structure and firm performance. Studies suggest that higher leverage can help minimize agency costs by aligning the interests of shareholders and managers, as increased debt levels demand greater accountability and closer monitoring of performance (Bhatt & Bhatt, 2017). However, excessive leverage can also lead to financial distress, which may harm firm value, illustrating the delicate balance that firms must maintain in their capital structure decisions (Muller-Kahle et al., 2014). In terms of firm characteristics, factors such as ownership structure and board

composition can significantly influence performance outcomes. For instance, firms with a more diverse board may benefit from a wider range of perspectives, leading to better decision-making and enhanced firm performance (Lisboa, 2015).

This study seeks to investigate the impact of firm performance, measured by ROE, and firm characteristics, specifically firm size, on firm value, as reflected by the price-to-book value (PBV). It incorporates two control variables—economic situation and industry type—to account for external influences. Additionally, the research introduces the dividend payout ratio (DPR) as a moderating variable to explore its effect on the relationships between ROE and PBV, as well as between firm size and PBV. The study analyzes 21 SOEs listed on the Indonesia Stock Exchange (IDX), utilizing 345 firm-year observations to ensure robust findings. The significance of this research lies in its focus on SOEs, which play a critical role in Indonesia's economy, providing insights into how performance and size influence firm value in this unique context. By incorporating DPR as a moderator, the study contributes to the understanding of how dividend policies can shape these relationships, offering valuable implications for corporate decision-making and financial strategy in emerging markets.

3.3 Literature Review

The positive relationship between profitability and firm value is supported by studies indicating that firms with higher asset efficiency tend to attract more investors and achieve better market valuations (Putri et al., 2023). Similarly, ROE is often viewed as a key indicator of financial health, with higher values signaling effective management and profitability, thus enhancing firm value (Rahmadi, 2020).

H1: Firm performance, measured by ROE, has a positive correlation with firm value, as reflected in the PBV.

Firm size is frequently associated with economies of scale and increased market presence, which can lead to higher firm valuations. Studies have shown that larger firms are often perceived as less risky and more stable, thereby commanding higher market valuations (Suriawinata & Nurmalita, 2022). Larger firms typically have more resources and market power, which can lead to higher valuations (Suriawinata & Nurmalita, 2022).

H2: The size of company positively influences its value, as indicated by the PBV ratio.

Based on the context of dividend signaling theory and the potential references provided, the following hypotheses can be formulated regarding the moderating effect of the DPR on the relationship between financial performance (ROA, ROE), firm characteristics (size and age), and firm value (PBV).

Specifically, higher DPR enhances the positive effects of ROE on firm value, as it signals financial stability and future profitability to investors. According to signaling theory, an increase in dividends is perceived as a positive signal regarding a firm's future earnings potential and financial health Brío & Miguel (2010). When firms with strong financial performance (high ROE) also maintain a high DPR, it reinforces the message of stability and profitability, leading to a more pronounced increase in firm value (Chakkravarthy, 2023). This aligns with findings from Nguyen & Tran (2016), which suggest that firms that smooth dividends during economic uncertainty are viewed favorably by the market. Dividends serve as a signal of a firm's financial health and future profitability. The ability to sustain dividends can reinforce the positive effects of financial performance on firm value, making DPR a critical moderating factor.

H3: The DPR positively moderates the relationship between financial performance (ROE) and firm value (PBV).

Specifically, larger firms with higher DPR will exhibit a stronger positive relationship with firm value compared to those with lower DPR. Larger firms are often perceived as more stable and capable of sustaining dividend payments, which can enhance their market value (Chakkravarthy, 2023). When these firms also maintain a high DPR, it signals to investors that they are committed to returning profits to shareholders, further enhancing their perceived value (Chakkravarthy, 2023). This is supported by research indicating that firm size moderates the relationship between dividend policies and firm value, suggesting that larger firms benefit more from maintaining high dividend payouts (Chakkravarthy, 2023). Larger firms are generally perceived as more stable and capable of sustaining dividend payments. When these firms also maintain a high DPR, it signals to investors that they are committed to returning profits to shareholders, which can enhance their perceived value. Agency costs can be particularly pronounced in larger firms, where the separation of ownership and management may lead to inefficiencies.

H4: The DPR positively moderates the relationship between firm characteristics (firm size) and firm value (PBV).

3.4 Research Method

Moderation Regression Analysis (MRA) will be employed to examine the moderating effect of DPR on the relationships between financial performance, firm characteristics, and firm value. The following steps will be involved: The regression model can be specified as follows:

(1) PBV = a + b1ROE + b2Size + e.
(2) PBV = a + b1ROE + b2Size + b3DPR + e.

(3) PBV = a + b1ROE + b2Size + b3DPR + b4Industry + b5Situation + b6(ROE* DPR) +b7(Size*DPR) + e.

Where: a is the intercept, b1 – b7 are the coefficients to be estimated, and e is the error term. The interaction terms (ROE*DPR, & Size*DPR) will be included to assess how the impact of financial performance on firm value changes at different levels of DPR.

Research Variables

Dependent Variable

Firm value is assessed using the PBV ratio, obtained by dividing the market price per share by the book value per share. This ratio indicates the amount investors are willing to pay for each unit of net assets, serving as a measure of the market's perception of the firm's worth compared to its actual asset value. PBV is a measure of firm value in the context of dividend policy (Saputri & Bahri, 2021).

Independent Variable

(1) ROE as a measure of Financial Performance. It is determined by dividing net income by shareholder equity. This metric evaluates a company's profitability relative to equity provided by shareholders, reflecting how efficiently management utilizes equity financing to produce profits. Putri and Kisman (2022) emphasize the relevance of ROE in evaluating firm performance and its correlation with firm value. Other Independent Variable: (2) Firm size will be measured using the natural logarithm of total assets as a measure of Firm Characteristics.

Moderating Variable

The DPR is calculated as dividends per share divided by earnings per share as a moderating variable. This ratio indicates the proportion of earnings distributed to shareholders as dividends, reflecting the firm's dividend policy. Saputri and Bahri (2021) provide a clear definition of DPR and its relevance in the context of

firm value.

Control Variable

Industry type (Industry) will be categorized based on the classification of firms listed on the IDX as a control variable. The types of industries are divided into 7 groups, namely: 1= finance, 2= energy, 3= transportation & logistics, 4= infrastructure, 5= technology, 6= raw material, & 7= healthcare. This variable will control for the effects of industry-specific factors on firm value, as different industries may exhibit varying characteristics and performance metrics. Rusgowanto and Panggabean (2021) highlight the importance of considering industry type when analyzing firm value. The other control variable is the situation. The situation reflects a period of uncertainty that specifically impacts the Indonesian capital market. The situation variable is categorized into two: 1 = uncertain situation, and 0 = other situations. The cut-off period for the uncertain situation is the years 2008-2009, during which the global crisis occurred, significantly impacting the IHSG (Indonesian Stock Exchange Composite Index) with the lowest point in October 2008. The second period is 2020-2022, during which the COVID-19 pandemic occurred, significantly affecting stock prices in the capital market, with the lowest point in March 2020.

3.5 Results

The data used in this study consists of 21 SOEs or 345 firm-year observations. Below are the descriptive statistics for each variable used in this study.

Table 3.1. Descriptive Statistics (N =345)

	Minimum	Maximum	Mean	Std. Deviation
PBV	0.01	46.24	1.9063	3.42600
ROE	-4.96	0.59	0.1089	0.32568
DPR	0.00	1.58	0.3228	0.24518

Size	26.97	35.23	31.0588	1.93902
Situation	0.00	1.00	0.2580	0.43815
Industry	1.00	7.00	3.9536	2.16826

Source: Processed Secondary Data (2024)

Table 3.1 shows that the PBV value has an average of 1.9063 with a standard deviation of 3.42600. The lowest PBV value is 0.01 (TINS in 2002) and the highest is 46.24 (INAF in 2022). The ROE value has an average of 0.1089 with a standard deviation of 0.32568. The lowest ROE value is -4.96 (INAF in 2022) and the highest is 0.59 (ANTM in 2007). The DPR value has an average of 0.3228 with a standard deviation of 0.24518. The lowest DPR value is 0.00 (JSMR in 2021) and the highest is 1.58 (PGAS in 2008). The Size value (logarithm of total assets) has an average of 31.0588 with a standard deviation of 1.939032. The lowest Size value is 26.97 (INAF in 2005) and the highest is 35.23 (BMRI in 2022).

Hypothesis testing was subsequently conducted using regression with bootstrap on all three models in this study. Bootstrap methods are particularly valuable in statistical analysis as they do not rely on assumptions about the underlying distribution of residuals, making them applicable even when classical assumptions fail. This characteristic allows for the estimation of uncertainty in various statistical models, including those with heteroscedasticity, where traditional methods may falter (Thai et al., 2013; Mokhtar et al., 2023). The flexibility of bootstrap methods enables their use in scenarios where the distribution of errors is unknown or non-normal, thus enhancing the reliability of statistical inferences (Hassan & Ali, 2022; Mokhtar et al., 2023).

Table 3.2. Results of Model 1, Model 2, & Model 3

Variable	Bootstrap for Coefficients (Beta)		
	Model 1	Model 2	Model 3
Constanta	7.306	7.739	26.768
ROE	-6.064**	-6.545**	-6.783***
Size	-0.273*	-0.304*	-0.802**

Industry	0.049	0.069	0.024
Situation	-0.044	-0.054	-0.104
DPR		2.267	-47.221**
ROE*DPR			14.348*
Size*DPR			1.492**
Adjusted R Square	0.382	0.404	0.476

Note: Y= Firm value (PBV). Prob. sig. value: ***1%, **5%, & *10%

Table 3.2 presents the results of testing the three research models. Model 1 examines the connection between the dependent variable, firm value (measured by PBV) and the independent variables (ROE, Size, Industry, Situation). Model 2 includes the moderating variable (DPR) alongside the variables from Model 1. Model 3 further includes interaction terms (ROE x DPR and Size x DPR) to examine whether the relationship between the independent variables and the dependent variable is influenced by the moderating effect of DPR. In both Model 1 and Model 2, the coefficient of ROE is negative and statistically significant at the 5% level (p = 0.05), indicating that higher ROE is associated with a decrease in firm value (PBV). In Model 3, the negative coefficient for ROE remains statistically significant, but at a stronger 1% level (p = 0.01). This means that H1 is not supported.

In both Model 1 and Model 2, Size has a negative effect on firm value at the 10% level (p = 0.10), suggesting that larger companies have lower PBV. In Model 3, the negative relationship becomes stronger and statistically significant at the 5% level (p = 0.05), meaning size has a more pronounced negative effect on firm value when interacting with DPR. This means that H2 is not supported.

The coefficient for Industry is not significant in any of the models, suggesting that the type of industry does not have a meaningful impact on firm value (PBV). Similarly, the coefficient for the situation is also not significant, indicating that the market conditions (whether uncertain or controlled) do not significantly

influence firm value in these models. All the control variables in this study do not have a significant effect on firm value (PBV).
In Model 2, the coefficient for DPR is positive but not statistically significant. However, in Model 3, the coefficient for DPR is negative and statistically significant at the 5% level, implying that DPR could have a negative effect on firm value when interacting with other variables. Additionally, in Model 3, the interaction term ROE*DPR is positive and statistically significant at the 10% level (p = 0.10), indicating that the relationship between ROE and firm value is influenced by DPR—to put it differently, the negative impact of ROE on PBV is stronger when DPR is higher. This means that H3 is supported. In Model 3, the Size*DPR interaction term is positive and statistically significant at the 5% level (p = 0.05), indicating that the negative effect of Size on firm value becomes stronger when DPR is higher. This means that H4 is supported.

3.6 Discussion

Firm performance (ROE) significantly affects firm value, with ROE having a negative effect (Model 1). High ROE is often generated by companies that take on higher risks in their operations (e.g., increasing leverage or relying heavily on debt). While this boosts profits, it can also increase financial and operational risks, which may make investors more cautious in assessing the company's value. In this case, a lower PBV might reflect investor concerns about high risks that may not be fully reflected in the ROE figures. Investors tend to focus more on long-term risks and future uncertainties than on short-term financial performance. Another explanation for the negative effect of ROE on PBV could be that companies with high ROE may choose not to pay dividends or pay very low dividends, opting to retain profits and reinvest them. While this strategy may support the company's growth, investors who prefer dividends or direct returns may value the company lower (reducing PBV). In this case, despite high ROE indicating good performance, low dividend payouts could reduce the market

perception of the company's value, as investors tend to see stable dividends as an indicator of value and long-term health. Another possibility is that high ROE is often generated by high leverage (debt), which increases net income but also raises financial risk. In this case, even though the company reports high profits (high ROE), investors may perceive that the company's market value (PBV) does not reflect the existing risks, especially if the company's debt is high-risk or difficult to manage. Investors may feel that high leverage will not be sustainable in the long term, which could lead to a decrease in PBV despite the high ROE.

Research indicates a complex relationship between firm performance, specifically ROE, and firm value, measured by PBV. Several studies suggest that while ROE is often positively correlated with PBV, there are instances where ROE may not have a significant impact on PBV. For example, Romansyah et al. found that profitability (ROE) tends to fluctuate, which can lead to variations in PBV, indicating a nuanced relationship (Romansyah et al., 2021). However, the study by Putri concludes that profitability (ROE) has a significant positive effect on firm value (PBV), contradicting the notion of a negative impact (Putri, 2023). Theories such as signaling theory can help explain these findings, suggesting that firms with lower ROE may signal poor performance to investors, potentially reducing their perceived value (Bergh et al., 2014). Additionally, the Capital Structure Theory posits that higher leverage can lead to increased financial risk, which may negatively influence both ROE and PBV (Hajisaaid, 2020).

Firm characteristics (Size) significantly affect firm value, with Size showing a marginal negative effect (Model 1). Large companies often have more complex organizational structures, which can lead to poor management, poor decision-making, or leadership issues. On the other hand, smaller companies may be more agile and able to make decisions more quickly and effectively. Managerial mistakes or leadership problems in large companies can reduce the

company's market value (PBV) because investors may perceive them as signs of instability or inability to adapt to market or economic changes. Large companies tend to have higher leverage, meaning they are more reliant on debt to finance their expansion and operations.

Larger firms often experience inefficiencies in CEO ownership allocation, which can detrimentally affect firm value (Imasuen et al., 2022). Firm size has a negligible and positive impact on firm value (Sarsiti, 2024). Furthermore, a study by Sheikh and Khan reported a consistent negative relationship between firm size and firm value, reinforcing the notion that larger firms may face challenges that diminish their market valuation (Sheikh & Khan, 2016). Theoretical frameworks such as agency theory can elucidate these findings, as larger firms often encounter more complex agency problems, leading to inefficiencies that can negatively impact firm value (Imasuen et al., 2022). Additionally, the Resource-Based View posits that larger firms may struggle with resource allocation and management, further contributing to a decline in perceived value (Syakirra, 2023).

DPR does not show significant effects on its own but is considered a moderator in Model 3. Interaction terms (ROE x DPR and Size x DPR) suggest that DPR moderates the effects of ROE and Size on firm value. The interactions are significant, showing that DPR plays a role in enhancing or weakening the relationships between the independent variables and firm value. Higher DPR strengthens the positive relationship between ROE and firm value by signaling financial stability and future profitability to investors, as outlined in signaling theory (Brío & Miguel, 2010). When firms with high ROE also maintain a high DPR, it reinforces their stability, boosting firm value (Chakkravarthy, 2023). This is supported by Nguyen & Tran (2016), who found that firms that smooth dividends during uncertain times are viewed positively by the market. DPR signals a firm's confidence in its future earnings, enhancing investor

perception and increasing market value. Additionally, agency theory suggests that paying dividends reduces agency costs by aligning the interests of managers and shareholders, further boosting firm value, especially when ROE is high.

Larger firms with higher DPR show a stronger positive relationship with firm value than those with lower DPR. These firms are seen as more stable and capable of sustaining dividends, which boosts their market value (Chakkravarthy, 2023). A high DPR signals commitment to returning profits to shareholders, further enhancing their perceived value. Research supports that firm size moderates the relationship between dividend policies and firm value, with larger firms benefiting more from high dividends. DPR also helps reduce agency costs in large firms, aligning shareholder and management interests, which increases firm value. For larger firms, maintaining dividends during tough times strengthens the positive impact of firm characteristics on firm value, making DPR a key moderating factor.

ROE and Size both have negative effects on firm value, with DPR moderating these effects in Model 3. The interaction between Size and DPR suggests that the relationship between company size and firm value is stronger when the DPR is higher, which could imply that larger companies are penalized more in terms of firm value when the DPR is higher. The more appropriate type of moderation for the results of this study is the interaction-only moderator. This is evident from the moderating variable (DPR), which only serves to moderate or influence the strength or direction of the relationship between the independent variables (ROE and Size) and the dependent variable (Firm Value), but does not affect the direct relationship between the independent and dependent variables. The results of this study show that DPR does not have a significant direct effect on firm value in Model 2, but plays a role as a moderator in Model 3 by influencing the relationship between the independent variables (ROE and Size) and firm value. The

interactions between ROE × DPR and Size × DPR indicate that DPR only modifies the relationship between ROE/Size and firm value without becoming a primary predictor in the model. The lack of significance for Industry and Situation suggests that these variables do not have a major impact on firm value in this study, or their effects are not captured well by the model.

The implications suggest that companies should be cautious about using ROE or large size as primary indicators for increasing PBV. Implementing an effective dividend policy can be a crucial strategy for boosting or maintaining firm value, especially for large companies that face difficulties in sustaining PBV. Companies should strike a balance between dividend payouts and investment in growth, while also managing organizational complexity to enhance PBV.

3.7 Conculision

This study, involving 21 publicly listed SOEs with 345 firm-year observations, reveals several key findings. Firm performance, measured by ROE, has a negative and significant impact on firm value, as indicated by PBV. Similarly, firm characteristics, specifically firm size (measured by the natural logarithm of total assets, ln_TA), also show a negative and significant effect on firm value. However, DPR plays a moderating role, positively influencing the relationship between both ROE and firm size with PBV. These results highlight the complex interplay between firm performance, characteristics, and dividend policies in shaping firm value.

REFERENCE

Ahmed, A. M., Nugraha, D. P., & Hágen, I. (2023). The relationship between capital structure and firm performance: The moderating role of agency cost. *Risks*, *11*(6), 102. https://doi.org/10.3390/risks11060102

Assagaf, A., Yusliza, M. Y., & Hassan, R. (2017). Government subsidy, strategic profitability and its impact on financial performance: Empirical evidence from Indonesia. *Investment Management and Financial Innovations*, *14*(3), 135–147. https://doi.org/10.21511/imfi.14(3).2017.13

Bergh, D. D., Connelly, B. L., Ketchen, D. J., & Shannon, L. M. (2014). Signalling theory and equilibrium in strategic management research: An assessment and a research agenda. *Journal of Management Studies*, *51*(8), 1334–1360. https://doi.org/10.1111/joms.12097

Chakkravarthy, B. (2023). The relationship between promoters' holdings, institutional holdings, dividend payout ratio and firm value: The firm age and size as moderators. *Journal of Risk and Financial Management, 16*(11), 489. https://doi.org/10.3390/jrfm16110489

Chauhan, H. J., & Rao, Z.-R. (2022). Impact of dividend and leverage on free cash flow in the context of agency problem: Evidence from Pakistan. *Gurukul Business Review*, *18*(1). https://doi.org/10.48205/gbr.v18.2

Colombo, M. G., Meoli, M., & Vismara, S. (2019). Signaling in Science-Based IPOs: The combined effect of affiliation with prestigious universities, underwriters, and venture capitalists. *Journal of Business Venturing*, *34*(1), 141–177. https://doi.org/10.1016/j.jbusvent.2018.04.009

Dawar, V. (2014). agency theory, capital structure and firm performance: Some Indian evidence. *Managerial Finance*, *40*(12), 1190–1206. https://doi.org/10.1108/mf-10-2013-0275

Dewi, A. K., Arifardhani, Y., & Irawan, D. (2023). Antecedents to merger viewed from company performance in the merger process. *Interdiciplinary Journal and Hummanity (Injurity)*, *2*(3), 250–259. https://doi.org/10.58631/injurity.v2i3.43

Hajisaaid, A. M. S. A. (2020). The effect of capital structure on profitability of basic materials Saudi Arabia firms. *Journal of Mathematical Finance*, *10*(04), 631–647.

https://doi.org/10.4236/jmf.2020.104037

Hassan, S., & Ali, K. (2022). Robust bootstrap regression testing in the presence of outliers. *Mathematical Modeling and Computing, 9*(1), 26–35. https://doi.org/10.23939/mmc2022.01.026

Imasuen, O. F., Okoro, E. G., & Yahaya, G. H. (2022). Chief executive officer attributes and the value of the firm: Does firm size play a moderating role? *International Journal of Management and Sustainability*, *11*(1), 46–57. https://doi.org/10.18488/11.v11i1.2976

Jiraporn, P., Chintrakarn, P., & Liu, Y. (2011). Capital structure, CEO dominance, and corporate performance. *Journal of Financial Services Research*, *42*(3), 139–158. https://doi.org/10.1007/s10693-011-0109-8

Kumar, D. (2022). Economic and political uncertainties and sustainability disclosures in the tourism sector firms. *Tourism Economics*, *29*(6), 1694–1699. https://doi.org/10.1177/13548166221113434

Lisboa, I. (2015). Family impact on capital structure: Does financial crisis matter? *Journal of Business and Economics*, *6*(2), 306–316. https://doi.org/10.15341/jbe(2155-7950)/02.06.2015/008

Lumapow, L. S. (2018). The influence of managerial ownership and firm size on debt policy. *International Journal of Applied Business and International Management*, *3*(1), 47-55. http://doi.org/10.32535/ijabim.v3i1.76

Mokhtar, S. F., Yusof, Z. M., & Sapiri, H. (2023). Confidence intervals by bootstrapping approach: A significance review. *Malaysian Journal of Fundamental and Applied Sciences, 19*(1), 30–42. https://doi.org/10.11113/mjfas.v19n1.2660

Muller-Kahle, M. I., Wang, L., & Wu, J. (2014). Board structure: An empirical study of firms in Anglo-American governance environments. *Managerial Finance*, *40*(7), 681–699. https://doi.org/10.1108/mf-04-2013-0102

Nguyen, X. M., & Tran, Q. T. (2016). Dividend smoothing and

signaling under the impact of the global financial crisis: A comparison of US and Southeast Asian Markets. *International Journal of Economics and Finance*, *8*(11), 118. https://doi.org/10.5539/ijef.v8n11p118

Prastiyono, G. H. (2024). The effect of CEO narcissism, company size, and free cash flow on financial performance through CSR in SOEs on the IDX 2018-2022. *Jurnal Indonesia Sosial Teknologi*, *5*(6), 2781–2794. https://doi.org/10.59141/jist.v5i6.1116

Priani, D. A. (2023). The effect of profitability, dividend policy and debt policy on firm value. *Prmandala*, *4*, 443–451. https://doi.org/10.31967/prmandala.v4i0.779

Putri, I. A. J., Budiyanto, B., Triyonowati, T., & Wang, L. (2023). Growth, intellectual capital, financial performance and firm value: Evidence from Indonesia automotive firms. *International Journal of Science Technology & Management*, *4*(1), 139–146. https://doi.org/10.46729/ijstm.v4i1.723

Putri, M. D. N., & Kisman, Z. (2022). Analysis of factors affecting firm value (empirical studies on food and beverage sub-sector industry companies listed on IDX in 2014 – 2020). *Islamic Banking Jurnal Pemikiran Dan Pengembangan Perbankan Syariah*, *8*(1), 197–216. https://doi.org/10.36908/isbank.v8i1.571

Putri, R. J. (2023). The effect of dividend policy and profitability on firm value. *Accounting and Finance Studies*, *3*(2), 142–156. https://doi.org/10.47153/afs32.6622023

Romansyah, J., Zakaria, M. I., & Yulianti, M. L. (2021). The effect of profitability (ROE), capital structure (DER) and firm size on firm value (PBV) (case study on primary consumer goods manufacturing companies listed on the Indonesia Stock Exchange 2016-2018 period). *Journal of Accounting and Finance Management*, *2*(3), 132–140. https://doi.org/10.38035/jafm.v2i3.119

Rusgowanto, F. H., & Panggabean, R. R. (2021). The influence of company characteristics, intellectual capital, and CSR

toward company values on companies listed on BEI in 2014 to 2017. *IOP Conference Series Earth and Environmental Science*, *729*(1), 12112. https://doi.org/10.1088/1755-1315/729/1/012112

Saputri, D. R., & Bahri, S. (2021). The effect of leverage, profitability, and dividend policy on firm value. *International Journal of Educational Research & Social Sciences*, *2*(6), 1316–1324. https://doi.org/10.51601/ijersc.v2i6.223

Sarsiti, S. (2024). The impact of company characteristics to increase company value with corporate risk management as mediation in companies listed on the IDX in 2016-2020. *International Journal of Social Science*, *3*(4), 519–528. https://doi.org/10.53625/ijss.v3i4.7161

Satutikirono, R., & Sunitiyoso, Y. (2021). Applying scenario planning in the future of bank oranye priority banking services. *Journal of International Conference Proceedings*, *4*(3), 81-94. https://doi.org/10.32535/jicp.v4i3.1301

Sheikh, N. A., & Khan, M. I. (2016). Effects of excess cash, board attributes and insider ownership on firm value: Evidence from Pakistan. *Australasian Accounting Business and Finance Journal*, *10*(1), 29–39. https://doi.org/10.14453/aabfj.v10i1.4

Soejono, F. and Heriyanto, H. (2018). Privatization and firm performance: A study of Indonesia's state-owned enterprises. *Jurnal Dinamika Manajemen, 9*(2), 149-158. https://doi.org/10.15294/jdm.v9i2.14970

Suriawinata, I. S., & Nurmalita, D. (2022). Ownership structure, firm value and the moderating effects of firm size: Empirical evidence from Indonesian consumer goods industry. *Jurnal Manajemen Dan Kewirausahaan*, *24*(1), 91–104. https://doi.org/10.9744/jmk.24.1.91-104

Syakirra, A. (2023). Board size and firm value in the context of Malaysia: A conceptual framework. *Labuan Bulletin of International Business and Finance*, *21*(1), 50–60. https://doi.org/10.51200/lbibf.v21i1.4185

Thai, H.-T., Mentré, F., Holford, N. H. G., Veyrat-Follet, C., & Comets, E. (2013). A comparison of bootstrap approaches for estimating uncertainty of parameters in linear mixed-effects models. *Pharmaceutical Statistics, 12*(3), 129–140. https://doi.org/10.1002/pst.1561

Utomo, N. S. (2022). Financial performance analysis of construction state-owned enterprises listed in Indonesia Stock Exchange during Covid-19. *Amwaluna Jurnal Ekonomi Dan Keuangan Syariah*, *6*(2), 244–268. https://doi.org/10.29313/amwaluna.v6i2.9122

Chapter 4. Empowering Personal Financial Management Through Islamic Spirituality and Financial Independence (Freedom)

4.1 Abstract

The significance of this research lies in combining Islamic spiritual values with financial strategies aimed at achieving financial well-being, as well as emotional and spiritual balance. The primary objective of this study is to explore the Islamic spirituality role and financial freedom in individuals' financial management. This study employs a quantitative approach using a survey method. The population comprises Muslim entrepreneurs, and the sample was selected through purposive and convenience sampling techniques. Data were analyzed using multiple linear regression to examine the effect of Islamic spirituality and financial freedom on personal financial management. The findings reveal that Islamic spirituality significantly impacts personal financial management. Additionally, financial freedom has a positive effect on the quality of financial management. The results further indicate that integrating Islamic spirituality with financial freedom can enhance individuals' financial management abilities. This study contributes not only to achieving effective financial management but also to improving psychological and social well-being. The implications of these findings suggest that financial management strategies grounded in Islamic spirituality can be integrated with financial freedom to strengthen individual financial stability while also reducing social pressures.

4.2 Introduction

The management of personal finances is a crucial factor in enhancing individual well-being. However, surveys indicate that many people face challenges in managing their finances, including planning, spending, and investing (Setiawan, 2018; Sululing et al., 2018). Financial well-being, commonly referred to as financial

freedom, describes a condition in which individuals have sufficient financial resources to meet their needs without relying on monthly income (Wijayanti & Ramdani, 2019).

Financial freedom represents a state of autonomy in financial matters, allowing individuals to make choices regarding financial management that align with their aspirations and life goals (Sambharakreshna et al., 2023a; 2023b). Financial freedom is a condition where individuals are free from fear and anxiety over financial constraints and can utilize their economic power without working excessively (Afaf et al., 2021). Financial freedom refers to a state in which individuals or households have full control over their financial situations (Afaf et al., 2021). In other words, financial freedom reflects a condition where individuals are free from debt, possess passive income sufficient to meet their living needs, are financially protected against all risks, and can spend on leisure without stress.

Research by Garman and Forgue (2017) highlights that individuals who achieve financial freedom tend to exhibit more organized financial management. This is attributed to their ability to distinguish between primary and secondary needs and their capacity to invest in productive assets. The study also reveals that lower financial stress, resulting from financial freedom, enhances individuals' ability to make rational financial decisions.

Moreover, research by Lusardi and Mitchell (2014) emphasizes that financial literacy has a significant role in aiding individuals to achieve financial freedom, which in turn influences how they manage budgets and assets. Those with financial freedom are often more disciplined in budget allocation, prioritizing expenditures that provide long-term value.

Studies on personal financial management largely focus on economic and psychological factors such as financial literacy, self-

control, and consumption behavior. However, there is a growing trend to consider the influence of spiritual values, including Islamic spirituality, in shaping financial behavior. Islam, as a value system, governs not only aspects of worship but also principles of economics and personal financial management, such as the prohibition of usury, encouragement of frugality, saving, and investing in halal assets (Ibrahim & Shirazi, 2019).

In this context, Islamic spirituality offers a unique perspective that emphasizes principles of balance, justice, and prudence in the use of wealth (Ali, 2020). However, to date, limited research has explored how Islamic spirituality can be integrated with the concept of financial freedom to increase the financial management quality for individuals.

Empirical studies on the impact of Islamic spirituality in personal financial management show varied results. A study by Rahim and Zakaria (2019) found that Islamic spiritual values, such as awareness of the hereafter, financial responsibility, and the obligation of zakat, positively influence financial management behavior. Individuals who strongly practice Islamic teachings tend to be more cautious in managing their income, particularly in aspects of saving and avoiding unnecessary debt.

On the other hand, some studies indicate that the impact of Islamic spirituality on personal finances can vary depending on individuals' understanding and commitment to these teachings. For instance, research by Lajuni et al. (2018) noted that while most Muslims acknowledge the importance of managing finances according to Islamic principles, their implementation in daily life is not always consistent. Education and Islamic financial literacy have a significant role in determining the extent to which spiritual values influence individuals' financial practices.

The gap between theory and research findings lies in the variation in the application of Islamic values to personal financial management. Theoretically, Islamic spirituality is expected to foster disciplined, frugal, and Sharia-compliant financial behavior. However, research findings indicate that the implementation of these values remains influenced by various factors such as education level, religious understanding, and social environment (Rahim & Zakaria, 2019; Lajuni et al., 2018).

Furthermore, Islamic financial literacy, or understanding of halal financial instruments and Sharia principles, is a determining factor in whether individuals apply financial management practices aligned with their spiritual values (Abdullah & Anderson, 2015). For example, even if someone is highly committed to spiritual values, a lack of understanding of halal investments or the concept of usury may hinder the application of Islamic principles in financial decision-making.

Based on the argument before, the research questions are as follows: (1) How does Islamic spirituality influence personal financial management? (2) How does financial freedom affect the quality of personal financial management? and (3) How does the integration of Islamic spirituality and monetary freedom impact personal financial management quality? This research has a goal to explain the impact of Islamic spirituality and financial freedom on personal financial management and the integration of Islamic spirituality and monetary freedom in improving personal financial management.

4.3 Literature Review

Personal Financial Management

Individual monetary management refers to the planning, managing, and controlling process of an individual's finances to achieve specific financial goals, such as economic well-being and long-term financial stability (Mashud et al., 2021). An individual's

ability to manage finances includes planning, budgeting, auditing, managing, controlling, sourcing, and saving, which is a way to get monetary freedom (Kholilah and Iramani, 2013).

The management of personal finances is a systematic process of organizing an individual's financial flow, encompassing income, expenses, savings, investments, and risk management. It is an essential skill for achieving financial stability and well-being, which involves making sound decisions regarding income, expenditures, savings, investments, and debt management (Lusardi & Mitchell, 2014).

Habits of allocating income for primary and secondary needs, as well as savings, can help individuals achieve financial stability. Hilgert, Hogarth, and Beverly (2003) argue that controlling expenses and maintaining proper financial records can reduce financial risks and maximize individual well-being in the long run.

Mismanaged debt can become a significant financial burden and disrupt financial stability. Therefore, it is crucial to understand interest rates, payment terms, and the impact of debt on cash flow. Personal financial management is the managing money process to achieve economic satisfaction and individual well-being (Kapoor et al., 2012 in Wiharno 2018).

Overall, individual financial management is not only about how one spends money but also about planning, organizing, and controlling finances to achieve economic well-being. Effective financial management enables individuals to attain financial stability and an improved quality of life.

Islamic Spirituality and Personal Financial Management

In Islam, wealth is viewed as a trust (*amanah*) that must be managed responsibly. The fundamental principles of financial management in Islam include avoiding wastefulness, fulfilling

zakat obligations, and ensuring that income sources are derived from halal activities (Chapra, 2000). Islamic spirituality emphasizes values such as simplicity, justice, and generosity, which encourage individuals to manage their finances wisely (Hassan & Noor, 2015).

The theoretical foundation for the effect of Islamic spirituality on personal financial management relates to the *maqasid al-shariah* concept (the Islamic law objective), which includes wealth preservation (mal). From this perspective, Islam promotes prudent and responsible financial management while discouraging excessive consumerism (Al-Ghazali in Badawi, 1979). Principles such as the prohibition of usury (riba) and the encouragement to avoid debt beyond one's capacity are believed to shape financial behavior, motivating individuals to live within their means and avoid financial entanglements (Dusuki & Abdullah, 2007).

Empirical research on the impact of Islamic spirituality on personal financial management yields diverse results. A study by Rahim and Zakaria (2019) found that Islamic spiritual values, such as awareness of the hereafter, financial responsibility, and zakat obligations, positively influence financial management behaviors. Individuals who strongly adhere to Islamic teachings tend to exercise greater caution in managing their income, particularly in saving and avoiding unnecessary debt.

A study by Lajuni et al. (2018) revealed a positive relationship between individuals' faith levels and their ability to control personal finances. This research indicated that individuals with high faith levels tend to exhibit better control over their expenses and are less inclined to accumulate excessive debt.

Further research by Husin and Rahman (2013) highlights that zakat and charity practices influence how Muslim individuals manage their finances. According to this study, zakat obligations

and charitable encouragement shape individuals' perceptions of wealth, driving them to manage their finances more responsibly.

Another study by Yusoff and Rahim (2018) notes how eschatological beliefs encourage saving behavior among Muslims. The research found that awareness of afterlife accountability motivates individuals to allocate a portion of their income for long-term and emergency needs. Islamic values prompt individuals to view wealth as a trust, fostering saving and discouraging wastefulness.

Ibrahim and Shirazi (2019) argue that Islamic spirituality encourages individuals to choose investment instruments aligned with Sharia principles, such as Islamic mutual funds or Sharia-compliant stocks. The study shows that individuals having a high spiritual level are glad to invest in instruments free from riba and avoid industries considered unethical under Islamic law.

Based on these findings, the research hypothesis proposed in this study is: "Islamic spirituality positively influences personal financial management."

Financial Freedom and Personal Financial Management

Financial freedom refers to a condition in which individuals achieve financial independence, allowing them to meet their needs without relying on monthly salaries (Fahmi, 2016). People who attain financial freedom generally demonstrate the ability to invest, save consistently, and manage debt efficiently.

Financial freedom is characterized by full control over one's finances, alleviating concerns about fulfilling daily necessities (Sambharakreshna et al., 2023a; 2023b). This independence enables individuals to live according to their preferences and goals without being burdened by financial problems (Sambharakreshna et al., 2023a; 2023b). In essence, financial freedom means an

individual having sufficient assets and passive income to cover living expenses, even if one decides to stop working.

To achieve financial freedom, individuals need a solid understanding of financial management, including saving, investing, and effectively managing debt (Sambharakreshna et al., 2023a; 2023b). Consistent saving is a critical step toward financial freedom. Saving allows individuals to build emergency funds, which are crucial for unexpected situations like job loss or medical expenses. Stanley and Danko (1996) identified saving habits and prudent spending as key characteristics of individuals who achieve financial freedom.

Investments also play a vital role in attaining financial freedom. Through strategic investments, individuals can grow their wealth and generate passive income, such as dividends or rental profits. Passive income serves as the foundation for financial freedom by enabling individuals to cover living expenses without depending on active employment. As Kiyosaki (1997) explains, financial freedom is achieved when passive income exceeds monthly expenses, relieving financial pressures.

Effective debt management is another essential component of financial freedom. Reducing or eliminating high consumer debt, such as credit cards or personal loans, improves monthly cash flow and accelerates progress toward financial independence. Ramsey (2003) emphasizes that one of the key steps to achieving financial freedom is paying off all consumer debts, allowing individuals to redirect income toward savings and investments.

Financial freedom is not solely about the amount of money one possesses but also about managing finances to balance financial needs and life satisfaction. Achieving financial freedom provides individuals with opportunities to focus on their passions and pursuits without being constrained by financial necessities.

According to Stanley and Danko (1996), individuals who attain financial freedom often exhibit excellent financial management skills, including budgeting, saving, and investing effectively. They utilize their financial freedom to manage resources wisely, contributing to their financial stability and growth.

Research by Kiyosaki (1997) supports the notion that financial freedom positively impacts personal financial management. Kiyosaki argues that financial freedom provides individuals with more time and resources to focus on strategic financial planning and investment management. Similarly, Ramsey (2003) highlights that achieving financial freedom involves effective debt management and robust investment strategies, enabling individuals to strengthen their financial management practices further.

Based on this discussion, the research hypothesis proposed is:
"Financial freedom positively influences personal financial management."

4.4 Research Method

The quantitative approach is used in the research by employing a survey strategy. The populace of the study comprises Islamic micro, small, and medium enterprises (MSME) business visionaries within the Madura locale. The test was chosen employing a convenience sampling strategy, coming about in a add up to of 47 respondents.

Questioners were shared to collect data, followed by validity and reliability testing. The test of validity using the total correlation item, specifically examining the values in the corrected Item-total correlation column. In this test, a questionnaire is deemed valid if the probability value is less than 0.05. A test of reliability was conducted to know questionnaire consistency as a variable indicator or construct. The statistical technique used for this test

was Cronbach's alpha coefficient. Generally, a research instrument is considered reliable if it has a coefficient value of Cronbach's alpha greater than 0.6

Multiple linear regression is an analytical tool to examine the influence of Islamic spirituality and financial freedom on the personal financial management variable). The coming regression demonstrates that it must pass classical presumption tests, counting tests for normality, multicollinearity, and heteroscedasticity. Data ordinariness is evaluated by deciding whether the information takes after the ordinary dispersion, which can be watched through the importance of esteem. On the off chance that the noteworthiness esteem surpasses 0.05, the show is considered typical. The ordinariness test utilized the Kolmogorov-Smirnov test. The multicollinearity test evaluates whether there's a relationship between independent factors within the relapse show. A great relapse show ought to have no relationship among autonomous factors. Multicollinearity is tried by assessing resistance values and changing swelling components (VIF) (Ghozali, 2018:107). On the off chance that the resistance esteem is more prominent than 0.10 or the VIF is less than 10, multicollinearity does not exist, demonstrating no noteworthy relationship among autonomous factors.

Heteroscedasticity detection involves observing scatterplot patterns of the points between ZPRED and SRESID. In addition to scatterplots, heteroscedasticity was tested using the Glejser test. If the significance probability value exceeds a 5% confidence level, the regression model is concluded to be free from heteroscedasticity.

The determination coefficient test was conducted to measure the model's ability to explain variations in the dependent variable. The adjusted R^2 value can increase or decrease depending on the independent variables included in the model. Adjusted R^2 can take

a negative value, which is interpreted as zero. The smaller the standard error in the adjusted R^2 calculation, the better the regression model predicts the dependent variable.

Hypothesis testing utilized partial tests (t-tests) and overall tests (F-tests). The t-test was employed to determine the individual influence of each independent variable on the dependent variable, while the F-test examined the collective influence of the independent variables on the dependent variable. These tests evaluate whether the degrees of freedom with a confidence level exceeding 5% result in hypothesis rejection. In other words, the significance value must be below 0.05 (5%).

4.5 Results

Descriptive Analysis

The variables in this study include personal financial management as the dependent variable, while the free variables are Islamic spirituality and financial freedom. The statistical descriptions of these variables are presented in Table 1 below:

Table 4.1. Descriptive Statistic

Variable	Mean	Std. Dev	N
PFM	4.3161	0.88261	47
IS	4.4081	0.70948	47
FF	4.3100	0.81049	47

Note: IS (Islamic Spirituality), FF (Financial Freedom), PFM (Personal Financial Management)

Based on Table 4.1, which presents the statistical description of the relevant variables, several key points can be highlighted. Personal financial management has a mean score of 4.3161 with a standard deviation of 0.88261. This indicates that, in general, respondents exhibit good personal financial management, with moderate variability among them.

Islamic spirituality records a mean score of 4.4081 and a standard deviation of 0.70948, suggesting that respondents generally have a high level of spiritual intelligence. The lower variability compared to other variables indicates a relatively uniform level of spiritual intelligence among respondents.

Financial freedom shows an average score of 4.3100 with a standard deviation of 0.81049. Respondents generally have a positive perception of their financial freedom, with relatively low variability, indicating consistent perceptions among respondents.

Overall, the three variables exhibit mean scores above 4, reflecting that the majority of respondents provide positive assessments of the aspects measured. The standard deviations for all variables are below 1, demonstrating that the variation in responses across respondents is relatively small. This indicates uniformity in respondents' perceptions of personal financial management, spiritual intelligence, and financial freedom.

Data Quality Testing

The validity test was conducted by comparing the significance value (2-tailed) with a probability of 0.05 (5%) and the Pearson correlation coefficient. If the significance value is less than 5% and the Pearson correlation is positive, the questionnaire items or statements are deemed valid. The results of the validity test indicate that all items in the questionnaire have significance values below 5% and positive Pearson correlation coefficients (see appendix). This implies that each question or statement in the questionnaire can be considered valid, and the questionnaire is, therefore, suitable for use in this study.

The reliability test utilized Cronbach's alpha coefficient as the statistical method. Generally, an instrument is considered reliable if its Cronbach's alpha coefficient exceeds 0.6. In this reliability testing, each variable demonstrated a Cronbach's alpha value

greater than 0.6, indicating that the questionnaire is reliable. This means that the instrument employed in this study exhibits good consistency in measuring the intended variables. Table 2 shows that the research questionnaires for all variables are reliable.

Table 4.2. Reliability Statistics

Variable	Cronbach's Alpha
IS	0.970
FF	0.916
PFM	0.957

Note: IS (Islamic Spirituality), FF (Financial Freedom), PFM (Personal Financial Management)

Multiple Linear Regression Analysis

The regression equation demonstrates the relationship between personal financial management and two free variables, namely Islamic spirituality and financial freedom. The influence of each variable in the regression equation is indicated by the regression coefficient values. These coefficients represent the extent of change in the personal financial management variable when the Islamic spirituality and financial freedom variables change by one unit, assuming other variables remain constant. Table 3 shows coefficient values. The regression model equation is as follows:

$$PFM = 0.030 + 0.154\ IS + 0.851\ FF$$

Table 4.3. Coefficient of Multiple Linear Regression

Model		Unstandardized Coefficients	
		B	Std. Error
1	(Constant)	0.030	0.399
	IS	0.154	0.141
	FF	0.851	0.124

Note: IS (Islamic Spirituality), FF (Financial Freedom)

The constant value is 0.030, indicating personal financial management is estimated to be 0.030 if all independent variables

are equal to zero. This constant represents the baseline value or intercept in the regression model.

The coefficient value for Islamic spirituality, 0.154, indicates that for every one-unit increase in Islamic spirituality, personal financial management improves by 0.154, holding other variables constant. This demonstrates that Islamic spirituality positively contributes to an individual's ability to manage their personal finances.

The coefficient value for financial freedom, 0.851, indicates that every one-unit increase in financial freedom enhances personal financial management by 0.851, with other variables remaining constant. This implies that the financial freedom of an individual has a greater effect on financial management than Islamic spirituality.

Overall, all independent variables in this model have positive coefficients, suggesting that both Islamic spirituality and financial freedom contribute positively to enhancing personal financial management.

Classical Assumption Test

The ordinariness of information can be surveyed by looking at whether the information is regularly dispersed, decided through the noteworthiness esteem. On the off chance that the noteworthiness esteem surpasses 0.05, the show is considered to have accomplished typicality. The comes about of typicality test utilizing the Kolmogorov-Smirnov test appears to have an importance esteem of 0.099, which is more prominent than 0.05. This demonstrates that the information and residuals are regularly conveyed. The comes about of typicality test conducted through the Kolmogorov-Smirnov test is displayed in Table 4.4 below:

Table 4.4. Kolmogorov Smirnov Test

		Unstandardized Residual
N		47
Normal Parameters	Mean	0.0000000
	Std. Deviation	0.41725301
Most Extreme Differences	Absolute	0.165
	Positive	0.102
	Negative	-0.165
Test Statistic		0.165
Asymp. Sig. (2-tailed)		0.099[c]

The regression model is considered robust if there is no correlation between one free variable and another. The multicollinearity test is conducted to examine the relationship between one independent variable and another by analyzing the tolerance values and the variance inflation factor (Ghozali, 2018). This measurement aims to identify which variables are explained by other independent variables. If the tolerance value is >0.10 and the VIF is <10, it shows that multicollinearity is absent, implying no significant correlation between independent variables. Table 5 presents tolerance and VIF values from the multicollinearity test result, demonstrating that the regression equation is free from multicollinearity. This indicates no significant correlation exists among the independent variables.

Table 4.5. Multicollinearity Test

Variable	Collinearity Statistics	
	Tolerance	VIF
IS	0.187	5.342
FF	0.264	3.784

Note: IS (Islamic Spirituality), FF (Financial Freedom)

The discovery of heteroskedasticity is conducted utilizing the Glejser test. In case the importance likelihood esteem surpasses the 5% certainty level, it can be concluded that the relapse demonstration does not show heteroskedasticity. Table 6 presents the results of the heteroskedasticity test utilizing the Glejser

strategy, appearing that the importance likelihood values for each variable are more noteworthy than 0.05 (5%), demonstrating that the relapse condition is free from heteroskedasticity.

Table 4.6. Heteroscedasticity Test

Model		t	Sig.
1	(Constant)	2.962	0.005
	IS	0.058	0.954
	FF	-1.448	0.155

Note: IS (Islamic Spirituality), FF (Financial Freedom)

Goodness of Fit of The Regression Model

The coefficient of assurance shows the degree to which the show clarifies the variety within the subordinate variable. The adjusted R^2 can also take a negative value, and when the adjusted R^2 is negative, it is considered to be zero. In the calculation of adjusted R^2, if the standard error obtained is smaller, the regression model is more accurate in estimating the personal financial management variable.

Table 4.7. Goodness of the Regression Model

Model	R	R Square	Adj. R Square	Std. Error of the Estimate	R Square Change
1	0.881[a]	0.777	0.766	0.42663	0.777

Based on Table 4.7, the standard error is very low, at 0.42663, indicating that the regression model is increasingly accurate in predicting the personal financial management variable. The R^2 esteem of 0.777, or 77.7%, appears that the factors of Islamic most profound sense of being and money-related opportunity can clarify the individual monetary management variable within the regression demonstrate, with 22.3% clarified by factors exterior the demonstrate. It can be concluded that the regression shows that the condition in this consideration is profoundly vigorous.

Hypothesis Testing

The hypothesis testing in this ponder was conducted utilizing the t-test (fractional test) and the F-test (concurrent test). These tests were performed by comparing the calculated t and F centrality values with a certainty level of 5%. The hypothesis is acknowledged in case the importance esteem is below 0.05 (5%).

Table 4.8 Partial (t) Test

Model		t	Sig.
1	(Constant)	0.457	0.940
	IS	2.901	0.000
	FF	6.869	0.000

Note: IS (Islamic Spirituality), FF (Financial Freedom)

Table 4.9 Simultaneous (F) Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	27.826	2	13.913	76.438	0.000b
	Residual	8.009	44	0.182		
	Total	35.834	46			
a. Dependedent Variable: PFM						
b. Predictors: (Constant), FF, IS						

Note: IS (Islamic Spirituality), FF (Financial Freedom), PFM (Personal Financial Management)

In Table 4.8, the significance values for each of the variables, Islamic spirituality and financial freedom, are less than 0.05 (5%). This indicates that the hypothesis in this study is accepted, meaning that both Islamic spirituality and financial freedom have individually significant effects on personal financial management.

From Table 4.9, it can be concluded that the regression model involving financial freedom and Islamic spirituality has a significant ability to explain the variation in personal financial management. This is evidenced by the large F value (76.438) and a significance of 0.000, which is well below the threshold of 0.05

4.6 Discussion

The Influence of Islamic Spirituality on Personal Financial Management

Spirituality refers to an individual's effort to live his life through a deep understanding of meaning, purpose, and higher values. In the context of personal financial management, spiritual intelligence can have a significant impact on how an individual makes financial decisions, as this intelligence helps individuals understand the essence of wealth, life priorities, as well as the social and moral responsibilities associated with finances.

Islamic spirituality is a value framework centered around Islamic teachings, such as the principles of justice, honesty, responsibility, and contentment (*qana'ah*). In the context of personal financial management, Islamic spirituality provides a strong ethical foundation and helps individuals manage their finances more wisely. Healthy personal financial management is not solely based on cognitive and emotional abilities but also driven by the spiritual values an individual holds.

Individuals grounded in Islamic spirituality tend to be more disciplined in managing their income and expenses. Values such as justice and responsibility motivate them to plan their finances carefully, such as setting aside part of their income for savings, halal investments, or charitable activities.

The principle of simplicity in Islam (*zuhud*) helps individuals manage materialistic desires that could disturb financial stability. According to research by Abdullah et al. (2019), Islamic spirituality significantly reduces wasteful spending habits and enhances self-control over expenditures. By applying Islamic values, individuals can better manage financial risks, such as avoiding dubious investments (*gharar*). Additionally, fulfilling obligations such as

zakat and charity brings blessings, which, psychologically, positively affects financial well-being (Rahman et al., 2016).

Several studies reveal that individuals with high spirituality tend to be wiser in using money and have a more balanced approach when facing economic pressures. They are more likely to view money as a means to achieve inner well-being and share with others rather than merely accumulating material wealth. The results of this study show that Islamic spirituality has a positive and significant influence on personal financial management. Islamic spirituality contributes positively to an individual's ability to manage their finances.

Previous studies consistent with the findings of this research indicate that Islamic spirituality significantly influences personal financial management. Respondents with a high level of spirituality tend to be more prudent with money, avoid consumer debt, and have good saving habits (Hasanah, 2021).

A study by Rahman et al. (2016) demonstrates that individuals who practice Islamic principles are better able to manage their finances and experience lower financial stress. Research by Abdullah et al. (2019) also found a positive relationship between Islamic financial literacy and financial well-being, particularly in enhancing the ability to avoid high-interest debt.

The Influence of Financial Freedom on Personal Financial Management

Financial freedom refers to a state in which an individual has enough assets and passive income to meet their living needs without relying on regular employment or other external sources (Sambharakreshna et al., 2023). Financial freedom is often achieved through a combination of savings, smart investments, effective debt management, and lifestyle control. This concept encompasses a noteworthy affect on personal monetary

management since it permits people to form more astute and more vital monetary choices for the long term.

This study's finding indicates that financial freedom plays a significant role and has a substantial influence on personal financial management. The regression result indicates that the contribution of financial freedom is 85.1% in personal financial management. This means that monetary freedom has a significant influence on how an individual manages their personal finances. Specifically, 85.1% of personal financial management can be explained by the financial freedom of the individual. In other words, the higher the financial freedom an individual has (e.g., through sufficient assets, passive income, and minimal debt burden), the better the individual's ability to manage their personal finances. Respondents who feel more financially secure tend to be more effective in planning their finances (Sukmana, 2018).

Research conducted by Dowling et al. (2009) shows that individuals on the path to financial freedom are more likely to plan their finances comprehensively. They adopt a more disciplined approach to spending, prioritize saving and investing, and focus on achieving long-term goals. This is because financial freedom allows them the mental space to think more strategically without the burden of short-term financial concerns.

Furthermore, financial freedom influences how an individual manages and balances debt and assets. Research by Atkinson and Messy (2012) emphasized that individuals who understand the importance of financial freedom tend to be more prudent with debt. They prefer productive debt, such as credit for property or business investments, and avoid consumer debt that can harm financial stability. With this understanding, individuals can manage debt more carefully, avoid high interest rates, and maintain financial stability.

Financial freedom also impacts an individual's ability to make investment decisions. Falahati and Paim (2011) found that individuals who aspire to financial freedom are more likely to invest in various financial instruments, such as shares, bonds, mutual funds, or real estate. They understand that investment diversification is key to achieving financial freedom because it minimizes risk and increases the potential for long-term returns. Therefore, they tend to make measured investment decisions aimed at long-term gains rather than seeking instant profits.

Financial freedom also provides positive psychological effects, which play a crucial role in personal financial management. Garman and Forgue (2006) revealed that individuals who feel financially free tend to have better mental well-being because they are not burdened by debt pressures or financial anxiety. This more stable psychological state positively influences overall financial behavior, where individuals are better able to control spending, avoid impulsive financial decisions, and focus on long-term, sustainable goals.

Finally, financial freedom allows individuals to be more flexible in facing economic risks or financial crises. Individuals who have achieved or are nearing financial freedom are more prepared to handle emergencies because they have sufficient savings or assets to weather financial shocks. Hogarth (2002) emphasized that individuals with financial stability are better able to cope with unexpected economic changes, such as recessions, job loss, or urgent health expenses.

Financial freedom has a profound impact on personal financial management because it enables individuals to make more strategic decisions regarding spending, debt management, and investment. With financial freedom, individuals not only improve their financial well-being but also achieve mental and emotional stability when facing financial challenges. Through disciplined planning, asset

management, and wise investments, financial freedom becomes a realistic and sustainable goal for individuals who manage their finances well.

The Influence of Islamic Spirituality and Financial Freedom on Personal Financial Management

Individual financial management is the method of organizing pay, costs, investments, and monetary arrangements to realize budgetary well-being. From an Islamic perspective, financial management is not solely focused on material goals but also encompasses spiritual values. The integration of Islamic spirituality and financial freedom can provide a holistic framework for managing personal finances in a balanced manner, where material and spiritual aspects complement each other.

Islamic spirituality and monetary freedom have a unique and complementary influence on personal financial management. When combined, they create a holistic approach where material and spiritual aspects are in balance.

Islamic spirituality provides a strong ethical and moral foundation for personal financial management. Values such as justice (*adl*), honesty, responsibility, simplicity (*zuhud*), and contentment (*qana'ah*) play an important role in shaping healthy financial behavior. Islam prohibits practices such as interest (*riba*), speculation (*gharar*), and hoarding wealth that can harm others. Islamic teachings encourage individuals to live according to their needs and avoid excessive consumerism. Wealth is viewed as a trust from Allah SWT, and its use must benefit oneself, family, and society through zakat, infak, and charity. Islamic spirituality governs not only how wealth is acquired but also how it is managed and distributed to achieve a balance between the worldly and the hereafter.

Financial freedom refers to a state where an individual has full control over their personal finances without the pressure of debt or reliance on active income. This concept emphasizes the importance of proper financial planning, sustainable investments, and living free from debt. Financial freedom fosters financial stability and provides individuals with the flexibility to pursue various life goals, including fulfilling spiritual obligations such as zakat and charity.

The integration of these two concepts has a significant impact on personal financial management. Individuals tend to be more cautious in managing their expenses and allocating funds because they are motivated by Islamic values and the goal of achieving financial freedom. Financial freedom enables individuals to reduce psychological stress from debt, while Islamic spirituality provides inner peace through gratitude and blessings. Wealth is not only used to meet personal needs but also for activities that provide social benefits, such as zakat and charity.

Hypothesis testing results indicate that the integration of Islamic spirituality and financial freedom can strengthen an individual's ability to manage personal finances. Respondents who have a strong understanding of Islamic values in financial management and have achieved financial freedom tend to be more disciplined in spending, more effective in investing and have long-term financial planning.

Substantive Requirements

Institutionally, the establishment of this UPTD has been regulated under North Maluku Governor Regulation No. 37 of 2019, which designates BKKPD as a technical implementation unit responsible for providing public services based on conservation areas. This function includes the management of conservation areas, such as utilization services for activities like commercial licensing, research permits, and tourist vessel entry permits. These services

reflect the operational duties and functions of the institution, indicating that the substantive requirements are met. However, in terms of providing goods or public services, the potential for optimization remains limited. As of 2024, no retribution revenue has been generated from these services due to the lack of implemented regulations for retribution collection. Furthermore, the management of conservation areas has primarily focused on the preservation of aquatic resources without making a significant contribution to improving the local economy in surrounding communities. The absence of specific programs aimed at supporting the local economy suggests that conservation area management still has room for development, particularly in integrating economic benefits with conservation objectives.

Technical Requirement

BKKPD demonstrates significant potential to enhance the effectiveness, efficiency, and productivity of conservation area management. Although management efforts have been optimized within the existing budget, the heavy reliance on APBD funding remains a major obstacle to ensuring operational sustainability. The absence of revenue from retribution underscores the need for the development of business-based services to create alternative income streams. In addition, BKKPD's technical specifications are not yet fully adequate. A significant workforce shortage presents a major challenge, with the number of personnel far below the required level, while conservation facilities and infrastructure are insufficient to support optimal operations. The licensing process, which is still managed jointly with Dinas Penanaman Modal dan Pelayanan Terpadu Satu Pintu (the Regional Investment and One-Stop Integrated Services Office (DPMPTSP)), highlights the need for better integration to support technical independence. The business-based service development plans designed by BKKPD, such as conservation area tourism, diving equipment rentals, and cottage management, offer great opportunities to address these technical limitations. However, these plans are still in their early

stages and lack detailed studies on projected revenue or financial and non-financial impacts. Developing more comprehensive analysis documents is an essential step to provide a clear picture of financial sustainability after transitioning to BLUD status. Therefore, although BKKPD has demonstrated compliance with substantive requirements, technical challenges in funding, human resources, and service management require further attention. Preparing more detailed feasibility studies, including financial and non-financial analyses, is a critical step to ensure readiness for the transformation into a BLUD.

Table 4.10 Summary of Fulfillment of Substantive Requirements

Fulfillment Criteria	Current Condition of UPTD BKKPD	Analysis Results
The duties and functions of UPTDs/Agencies are operational in nature, aimed at delivering public services that generate semi-commercial goods or services.	Has an institutional structure as a public service provider	UPTD BKKPD has fulfilled the substantive requirements, as its institutional structure and functions align with the provisions for a conservation-based public service provider.
	The establishment of this UPTD is based on Peraturan Gubernur Maluku Utara Nomor 37 Tahun 2019 tentang Perubahan Atas Peraturan Nomor 45 Tahun 2017 mengenai Pembentukan, Kedudukan, dan Susunan Organisasi Unit Pelaksana Teknis Daerah (UPTD) pada Dinas Kelautan dan Perikanan Provinsi Maluku Utara	
Provision of Goods and/or Public Services	Services currently provided by BKKPD include the utilization of conservation areas, licensing for video production and	The fulfillment of substantive requirements is progressing with the existing services; however,

	commercial photography, research permits, and permits for tourist vessels entering conservation areas.	the potential to optimize retribution-based services remains limited due to regulatory constraints and technical management challenges.
	No retribution has been collected for these services as of 2024.	
Management of Specific Areas or Regions for the Purpose of Improving Community Economy or Public Service Delivery	Manages marine conservation areas in several regions of North Maluku Province.	The management of conservation areas has been effectively carried out; however, greater emphasis is needed on contributing to the economic development of communities surrounding these areas. The Ministry of Marine Affairs and Fisheries has encouraged that conservation area management not only focuses on biodiversity preservation but also supports the sustainable development of local community economies.
	No specific programs have been implemented to enhance the economic welfare of communities within the conservation areas.	
Management of Special Funds for Economic Development	Does not manage special funds aimed at enhancing the economy and/or	No special funds are managed, and thus, this requirement is not applicable.

and/or Public Services	providing public services.	

Source: Processed Data (2024)

Table 4.11 Summary of Fulfillment of Technical Requirements

Fulfillment Criteria		Current Condition of UPTD BKKPD	Analysis Results
Feasibility Criteria			
1	Potential to improve service delivery effectively, efficiently, and productively.	Limited budget for managing conservation areas The budget is fully reliant on the Provincial APBD. Conservation area management has been carried out effectively, efficiently, and productively by maximizing the existing budget.	The potential for productive conservation area management is evident, but the reliance on the APBD remains a significant challenge. Developing business-based services is necessary to reduce dependency on government funding through the implementation of the BLUD framework.
2	Having Technical Specifications Directly Related to Public Services.	The number of technical staff with specific competencies is still very limited. Most licensing services are still managed jointly with the Dinas Penanaman Modal dan Pelayanan Terpadu Satu Pintu (DPMPTSP)	The UPTD's technical specifications do not yet fully support service operations, primarily due to the shortage of human resources and inadequate facilities. Improved coordination with relevant agencies is necessary to ensure more integrated licensing

		Conservation facilities and infrastructure are inadequate to fully support optimal operations.	management under the UPTD.
Potential Criteria			
1	Development plans observed from aspects such as service unit diversification, number of consumers, and customer satisfaction levels.	There are plans to develop business services, such as conservation-based tourism, cottage management, and diving equipment rentals.	The service development plans have significant potential to increase revenue but require a more comprehensive assessment.
		No detailed study has yet been conducted regarding revenue generation through business services.	A detailed revenue projection plan must be prepared to provide a clear picture of the unit's financial sustainability after transitioning to BLUD status.
2	Revenue growth projections for the coming years with the implementation of BLUD.	Development efforts are still in the initial planning stages, lacking detailed financial and non-financial impact assessments as well as revenue projections from new services.	Financial and non-financial analyses must be incorporated into the potential assessment document as a critical technical requirement to secure recommendations from the Regional Government regarding the

			feasibility of implementing BLUD.

Source: Processed Data (2024)

The UPTD BKKPD has significant potential to implement BLUD, although there are substantive and technical challenges that need to be addressed. Based on Minister of Home Affairs Regulation No. 79 of 2018, BKKPD has fulfilled substantive requirements through its duties and functions as a manager of conservation areas and a provider of public services. However, technical aspects require further attention, particularly concerning limited human resources, dependence on APBD funding, and the suboptimal implementation of regulations related to service retribution. From the perspective of New Public Management (NPM), efficiency and accountability are essential foundations in the management of public services. Moreover, the principles of Reinventing Government encourage public organizations to innovate and adopt entrepreneurial approaches. BKKPD's service diversification plans align with these concepts, but their implementation requires adequate regulatory support and service integration to ensure effective management.

4.7 Conclusion

This study found that Islamic spirituality has a significant and positive influence on individual financial management. Islamic spirituality provides a strong moral and ethical framework for managing personal finances. With principles such as justice, responsibility, and contentment, individuals are able to manage their finances wisely and sustainably.

Financial freedom has a significant and positive influence on personal financial management. Individuals who have achieved or are on the path to financial freedom are more capable of managing their finances effectively, as they have stable incomes, controlled

debt responsibilities, and a good understanding of investments and risk management.

The integration of Islamic spirituality and financial freedom creates a balanced approach to personal financial management. Islamic spirituality provides a foundation of values, while financial freedom offers the means to achieve these goals. Simultaneously, these two concepts strengthen an individual's ability to manage finances wisely, responsibly, and in accordance with Islamic principles, thereby fostering broader financial well-being.

These findings can give a basis for the next research aimed at developing financial education programs based on Islamic spirituality and the principles of financial freedom. The limitation of this study lies in the sampling process, where some respondents declined to participate in the interview for the questionnaire. Additionally, this study exclusively explores spirituality focused on Islam, as the majority of business owners in the Madura region practice Islam. For the next research, it is recommended to increase the sample amount and compare spirituality across different religions.

REFERENCE

Abdullah, M. F., Ismail, A., & Alias, A. H. (2019). Islamic financial literacy and its impact on financial wellbeing. *Journal of Islamic Finance*, *10*(2), 67-78.

Abdullah, M., & Anderson, A. (2015). Islamic financial literacy among bankers in Malaysia. *Jurnal Pengurusan*, *43*, 3-10.

Ali, M. (2020). *Pengelolaan Keuangan dalam Perspektif Islam*. Pustaka Ilmu.

Atkinson, A., & Messy, F. A. (2012). *Measuring Financial Literacy: Results of the OECD. International Network on Financial Education*. OECD Publishing.

Badawi, J. A. (1979). Islamic principles in personal finance and financial management. *The American Journal of Islamic*

Social Sciences, *6*(1), 15-25.

Chapra, M. U. (2000). *The Islamic Vision of Development in the Light of Maqasid Al-Shariah*. Islamic Research and Training Institute.

Dowling, N. A., Corney, T., & Hoiles, L. (2009). Financial management practices and money attitudes as determinants of financial problems and dissatisfaction in young male Australian workers. *Journal of Financial Counseling and Planning*, *20*(2), 5-13.

Dusuki, A. W., & Abdullah, N. I. (2007). Maqasid al-shariah, maslahah, and corporate social responsibility. *The American Journal of Islamic Social Sciences*, *24*(1), 25-45.

Fahmi, I. (2016*). Dasar-Dasar Investasi untuk Kebebasan Finansial*. Alfabeta.

Falahati, L., & Paim, L. H. J. (2011). Gender Differences in Financial Well-Being Among College Students. *Australian Journal of Basic and Applied Sciences*, *5*(9), 1765-1776.

Garman, E. T., & Forgue, R. E. (2006). *Personal Finance*. Cengage Learning.

Hasanah, R. (2021). Pengaruh Spiritualitas Islam terhadap Perilaku Pengelolaan Keuangan Keluarga Muslim. *Jurnal Ekonomi Islam*, *12*(1), 45-60.

Hassan, K., & Noor, S. (2015). Islamic Perspective of Financial Management. *Journal of Islamic Finance*, *6*(2), 101-112.

Hilgert, M. A., Hogarth, J. M., & Beverly, S. G. (2003). Household financial management: The connection between knowledge and behavior. *Federal Reserve Bulletin*, *89*, 309-322.

Husin, M. A., & Rahman, A. A. (2013). The role of religious norms and faith in Muslim consumers' decision-making process in Malaysia. *The International Journal of Social Sciences and Humanity Studies*, *5*(1), 161-170.

Ibrahim, Y., & Shirazi, S. (2019). Islamic perspective on personal financial management: Insights from maqasid al-shariah. *International Journal of Islamic and Middle Eastern Finance and Management*, *12*(2), 151-167.

Kholilah, N. Al, & Iramani. (2013). Studi financial management behavior pada masyarakat Surabaya. *Journal of Business and Banking*, *3*(1), 69–80.

Kiyosaki, R. T. (1997). *Rich Dad Poor Dad: What the Rich Teach Their Kids About Money That the Poor and Middle Class Do Not*. Warner Books Edition.

Lajuni, N., Ghazali, P. L., & Sarki, A. (2018). Influence of financial literacy, financial management practices, and self-efficacy on the financial well-being of Muslim micro-entrepreneurs. *Journal of Business Ethics, 27*(1), 97-112.

Lusardi, A., & Mitchell, O. S. (2011). Financial literacy and planning: Implications for retirement wellbeing. *Financial Services Review*, *20*(1), 25-43

Lusardi, A., & Mitchell, O. S. (2014). The economic importance of financial literacy: Theory and evidence. *Journal of Economic Literature*, *52*(1), 5-44.

Mashud, M., Mediaty, M., & Pontoh, G. T. (2021). The effect of financial literature, lifestyle and income of parents on student financial management behavior. *Journal of International Conference Proceedings*, 4(3), 256-264. http://doi.org/10.32535/jicp.v4i3.1315

Rahim, H. L., & Zakaria, N. (2019). The influence of Islamic religiosity on personal financial management and the performance of Muslim entrepreneurs in Malaysia. *The Journal of Social Sciences Research, 5*(1), 178-185.

Rahman, A. R. A., Haneef, M. A., & Jalil, A. (2016). Islamic perspective on financial management: A review of selected concepts and issues. *International Journal of Economics, Management and Accounting*, *24*(1), 1-19.

Ramsey, D. (2003). *The Total Money Makeover: A Proven Plan for Financial Fitness*. Thomas Nelson.

Sambharakreshna, Y., Kusumawati, F., & Wulandari, A. (2023a). The financial freedom approach in MSME financial management in the tourism sector. *Journal of Economics, Finance and Management Studies*, *6*(3), 1272-1283.

https://doi.org/10.47191/jefms/v6-i3-29

Sambharakreshna, Y., Kusumawati, F., & Wulandari, A. (2023b). The influence of financial management using the financial freedom approach, financial technology, and social capital on the income of MSMEs in the tourism sector. *The SeyBold Report*, *18*(12), 1873-1886.

Setiawan, D. (2018). Analisis perilaku keuangan masyarakat Indonesia. *Jurnal Manajemen Keuangan, 14*(3), 211-225.

Stanley, T. J., & Danko, W. D. (1996). *The Millionaire Next Door: The Surprising Secrets of America's Wealthy*. Longstreet Press.

Sukmana, R. (2018). *Financial Freedom: A Practical Guide to Financial Planning*. Deepublish.

Sululing, S., Ode, H., & Sono, M. G. (2018). Financial management model village. *International Journal of Applied Business and International Management*, *3*(2), 105-116. https://doi.org/10.32535/ijabim.v3i2.163

Suryani, N. (2019). Pengaruh kebebasan finansial terhadap kesejahteraan pribadi. *Jurnal Keuangan Syariah*, *8*(2), 76-88.

Wiharno, H. (2018). Pengaruh financial knowledge, financial behavior dan financial attitude terhadap personal finance management. *JRKA*, *4*(1), 64-76.

Wijayanti, L., & Ramdani, H. (2019). Kebebasan finansial: Konsep dan praktiknya di Indonesia. *Jurnal Akuntansi dan Keuangan Islam, 7*(1), 28-37.

Yusoff, W. S., & Rahim, F. A. (2018). Impact of Islamic spiritual values on saving behavior among Muslims. *Journal of Islamic Accounting and Business Research, 9*(4), 514-529.

Chapter 5. Good Corporate Governance Principles and Performance of Local Finance Institutions

5.1 Abstract

The purpose of this research is to find empirical results on the influence of GCG principles on the performance of local finance institutions in Bali. The local finance institution in Bali is popular called *Lembaga Perkreditan Desa* (LPD). The GCG principles used in this study are transparency, accountability, responsibility, independence, and fairness. The population in this study was 557 employees. There are 102 respondents collected using the purposive sampling method which consists of the head of LPD, the head of the supervisory board, and the head of the accounting of each LPD in Denpasar. The data analysis technique used is multiple linear regression analysis. The research results show that independence positively influences the performance of LPD. In contrast, transparency, accountability, responsibility, and fairness do not affect LPD performance. The LPD's management has an important role in increasing the principle of independence because independence has the most dominant influence on the performance of LPD in Denpasar.

5.2 Introduction

Bali is a province with strong local wisdom and customs that are inseparable from the existence of traditional villages. Traditional villages have scope in social, cultural, spiritual, and economic aspects. Therefore, in Bali, there are local finance institutions other than banks that help the regional economy. The institution is the *Lembaga Perkreditan Desa* which is found in several Balinese traditional villages. This study uses the term "LPD" as a local finance institution LPD was created in 1985 as a village-owned entity that aids the community in securing funding for company capital and other endeavours (Adiputra et al., 2014). LPD's working

practices are similar to other financial institutions. The management rules used are simpler and adapted to the environmental conditions where it was established. Although with simple management LPD can provide benefits to the village community. In practice, certain LPDs continue to fail to report financial statements in compliance with relevant standards (Munidewi et al., 2019).

This research was performed at LPDs in Denpasar City. Denpasar City is one of the regions in Bali Province with 4 sub-districts, 16 villages, and 27 traditional villages. Denpasar City was chosen because of a total of 1,436 LPDs in Bali, in the 2020 financial year, most of them experienced a decline in performance and some recorded growth, which was originally 35 LPDs and until now 34 LPDs in Denpasar City (LPLPD Denpasar City) are active. Based on the expansion of LPDs in Denpasar City, it is still necessary to improve their financial performance to compete with other financial institutions in terms of finance and customer service. In 2019 to 2022 based on LPLPD data, the following is the development of LPDs based on total assets, profits, savings, deposits, capital, and loans in Table5.1.

Table 5.1. Financial Advancement of LPDs in Denpasar City from 2019 to 2022

No.	Description	Year (Rupiah)			
		2019	2020	2021	2022
1.	Total Assets	2.579.771	2.539.622	2.568.793	2.743.197
2.	Profit	78.460	43.512	36.778	46.578
3.	Saving	1.069.396	1.001.207	997.190	1.110.709
4.	Deposit	426.681	436.231	477.081	570.685
5.	Loan	640	200	739	684
6.	Capital	7.267	7.207	7.208	7.334

Source: Village Credit Institution Empowerment Agency of Bali Province (LPLPD Bali, n.d.)

Table 5.1 illustrates that the development of LPD has fluctuated during the previous four years. This is a contradiction, because in 2020 and 2021 the total assets, deposits, and loans were higher than in 2019, but the profit earned was lower than the previous year.

Performance denotes the accomplishment of action in achieving organizational objectives. Good Corporate Governance (GCG) is a guideline or can be used as a formula for company managers in managing good company management concerning stakeholders (Dzingai & Fakoya, 2017). The stakeholders referred to in the LPD environment are villagers, government, managers, and the community. Institutional management based on GCG principles is an effort to make GCG a rule and guideline for institutional management in managing institutional management (Suwarmika, et al., 2019). By implementing GCG, LPDs will be more trusted and seen as professional organizations (Mulyawan et al., 2017).

The application of GCG principles can increase profitability and business sustainability (Todorovic, 2013). and suppress fraud (Suryandari et al., 2023b). The GCG framework is crucial in the administration of LPDs as it offers explicit guidance for responsible decision-making and enhances the overall management and performance of LPDs (Yahya & Shukeri, 2014). Aras and Crowther's (2008) research found that the effectiveness of GCG does not affect the success of the company. However, the results of other studies, namely Mahmood et al. (2018) and Riboldazzi (2016) found that GCG significantly affects the success of a company.

According to the Indonesian GCG General Guidelines established by the National Committee on Governance Policy in 2006, five principles underlie the company in carrying out its governance, including the first GCG Principle, namely transparency. The more transparent a company is in disclosing conditions and information will increase public confidence to save their funds or invest in these

financial institutions, to improve the company's financial performance (Tri et al., 2020).

Accountability is a necessary condition to achieve sustainable performance. Accountability reflects a company's disposition towards assuming responsibility for its performance. The company must be well-managed, Responsibility reflects the company's commitment to adhering to rules and regulations and carrying out community responsibilities to support business in the long term. If the company adheres to the principle of accountability by comprehending and complying with all laws, regulations, and relevant LPD standards, its performance will improve (Tri et al., 2020).

Independence is the disposition of a firm that possesses no affiliations and does not dominate intervention by other parties. In carrying out management, companies need to focus on making decisions objectively (impartially) and avoid taking sides with any party (Handayani et al., 2020). Fairness can be implemented by considering stakeholder interests and implementing justice for all stakeholders. LPD must prioritize fairness in improving company performance towards the better. Astini and Yadnyana (2019) assert that the application of GCG components is essential; hence, the deployment of GCG in financial institutions, such as LPDs, is anticipated to guide LPDs towards improved outcomes. LPD whose performance is good will add public trust in the LPD concerned (Tri et al., 2020).

This research seeks to evaluate the impact of sound GCG principles on enhancing LPD performance. Many previous studies have used a financial perspective to measure LPD performance. The company's performance is evidenced by its capacity to generate profit. Profit serves as a key measure for evaluating corporate performance (Suryandari et al., 2023a). In fact, to find out the performance of LPD, it needs to be measured with a more

comprehensive system and not just focus on the financial perspective. In this research, the performance measurement used is the Balance Scorecard method. A balanced scorecard maintains a balance of strategic measurements so that employees can act in the interests of the company (Kopecka, 2015). To achieve the success of a performance, it must have a good formula for managing its resources. This research is expected to contribute to LPLPD and each LPD to improve their performance.

5.3 Literature Review

Understanding Agency Theory and Its Relevance to Corporate Governance

Agency theory is a foundational framework employed to comprehend and elucidate the concept of GCG. Jensen and Meckling (2019) define an agency relationship as a contract wherein one or more individuals choose another individual to render services on their behalf, hence conferring decision-making authority to the agent. This relationship often leads to information asymmetry, where agents are positioned to have more information about the company than the principals (Jantadej & Wattanatorn, 2020). Assuming individuals seek to optimize their self-interest, such information asymmetry may result in agents concealing information from principals. To mitigate potential conflicts and prevent losses, companies need to adopt the principles of GCG. These principles, collectively known as Corporate Governance, provide a framework for managing an organization effectively (Tri et al., 2020). Therefore, agency theory is defined as a relationship in which the owner (principal) delegates authority to another person (agent) to conduct activities such as reporting, recording, presenting, and disclosing events within an institution.

Good Corporate Governance (GCG) Principles

The principles of GCG are crucial in guiding companies toward improved performance. All of the principles of GCG positively

impact the performance of LPDs, as demonstrated by several research studies.

Transparency

Transparency ensures access for all to information concerning the accountability of corporate entities to stakeholders (Tri et al., 2020). Greater transparency in delivering information accurately and promptly can increase stakeholders' trust in the organization's performance. Transparency can prevent corruption, as well as identify the strengths of company policies and weaknesses in internal control (Anggraini et al., 2021). The findings of Praningsih et al. (2019) and Sawitri & Ramantha (2018) substantiate the positive correlation between GCG and corporate performance, both of which concluded that transparency positively impacts company performance. When stakeholders understand the management of resources and other stakeholder rights, their trust in the organization grows, resulting in improved performance.

H1: Transparency positively influences the performance of LPD.

Accountability

Accountability pertains to the transparency of roles, frameworks, processes, and responsibilities within an organization. It is a critical prerequisite for achieving sustainable performance, ensuring that a company remains accountable in a true, measurable manner while taking into account the interests of managers and stakeholders. This accountability adds value and helps improve company performance (Tri et al., 2020). This is supported by Handayani et al. (2020), who found that accountability positively affects company performance. The more stakeholders understand the company's vision, mission, roles, duties, responsibilities, goals, and operational targets, the more focused the organization becomes, leading to improved performance. Junaidi et al. (2020) also found that accountability positively affects performance.

H2: Accountability positively influences the performance of LPD.

Responsibility

Responsibility pertains to the adherence of corporate management to relevant laws, regulations, and ethical business practices (Bagiana, 2022). Studies by Mahadewi & Asri (2019) and Sukardika et al. (2020) confirm that responsibility has a positive effect on company performance. Higher responsibility levels indicate better company performance. Within the framework of agency theory, accountability enhances performance by guaranteeing that organizations comprehend and adhere to norms and obligations to stakeholders. This compliance helps maintain business continuity in the long term, ultimately enhancing performance.

H3: Responsibility positively influences the performance of LPD.

Independence

Independence is another essential principle in GCG, where a company must have effective governance that operates without undue influence, dominance, or intervention from other parties (Tri et al., 2020). An objective attitude, free from conflicting interests, is necessary to avoid harm to the company. Research by Handayani et al. (2020) and Praningsih et al. (2019) support the idea that independence positively affects LPD performance. When management makes objective decisions free from outside influence, it prevents domination by any party, leading to improved company performance.

H4: Independence positively influences the performance of LPD.

Fairness

Equity in corporate governance entails justice and parity in honoring stakeholders' rights in accordance with agreements and relevant laws and regulations (Tri et al., 2020). Maintaining fairness and equality is crucial for the stability of a company or

organization. Sari and Putra's (2021) research indicated that fairness favorably influences the performance of LPDs. Similarly, Wati and Setiawan (2023) concluded that managing a company by providing fair, equal, and reasonable treatment for stakeholders leads to enhanced company performance.

H5: Fairness positively influences the performance of LPD.

The principles of GCG are essential components that collectively enhance the performance of LPDs. Research consistently supports the positive impact of these principles on company performance, reinforcing the importance of adhering to good governance practices in achieving organizational success.

5.4 Research Method

This study was executed at LPD in Denpasar City, totaling 34 LPDs. Denpasar City is also known as the city with the highest number of workers in Bali Province and the economic potential is also large but not followed by the existing economic growth. This research aims to examine the perceptions of employees at the LPD in Denpasar City. The independent variables in this study are Transparency (TRA), Accountability (ACC), Responsibility (RES), Independence (IND), and Fairness (FAIR). Meanwhile, what acts as the dependent variable is the performance of the LPD (LPDP).

The study's population comprised 557 personnel of the LPD in Denpasar City. This sample employs a purposive sampling strategy. The criteria for the sample in this study are employees of the LPD, holding positions as chairman of the LPD, head of the supervisory board of the LPD, and chief accounting officer of the LPD. So, the sample in this study was 102 people. LPD performance is the result of LPD work in carrying out its functions to achieve goals and can be measured by standards that have been set during a certain period. Transparency is a commitment by LPD managers to guarantee the accessibility and disclosure of significant

information for stakeholders concerning the financial status, management, and ownership of LPDs in a clear, exact, and correct manner. Indicators of transparency are the number of members of the supervisory board, the ability of the LPD management to provide financial reports, and meetings of the management, supervisory board, and village community to discuss LPD development.

Accountability is the responsibility of LPD managers to perform transparently and reasonably. Indicators of accountability are the understanding of the chairman and manager of the LPD about the vision, mission, and objectives of the LPD, the roles and responsibilities of the chairman and manager of the LPD, documentation of financial statements along evidence of transactions done properly. The LPD manager is obligated to adhere to rules and regulations while fulfilling commitments to the village community. Indicators of responsibility are the obedience of the LPD chairman and manager to laws and LPD regulations, the LPD's concern for the surrounding environment as social responsibility, and decision-making. Independence is where LPD management decisions are not bound by any party without exception so that each part of the LPD cannot be intervened by other parties. Indicators of independence include the chairman's decisions that are objective and devoid of negative interests from numerous parties, ensuring the chairman can evade any form of domination.

Fairness means that stakeholder interests must be the focus of LPD management. LPD management must be based on the principles of fairness and justice. Indicators of fairness are the opportunity for villagers or LPD members to have an opinion, fairness of managers towards members, and providing equal opportunities in recruiting employees for villagers. The questionnaire in this study was adopted from Suwarmika et al. (2019).
The multiple regression model can be articulated in the equation:

$$PERF = \alpha + \beta1TRA + \beta2ACC + \beta3RES + \beta4IDN + \beta5FAIR + e$$

5.5 Results

Instrument Test

Table 5.2. Validity Test

Variable	Indicator	Pearson Correlation	Validity
Transparency (TRA)	TRA.1	0.794	Valid
	TRA.2	0.890	
	TRA.3	0.878	
Accountability (ACC)	ACC.1	0.85	
	ACC.2	0.896	
	ACC.3	0.844	
Responsibility (RES)	RES.1	0.771	
	RES.2	0.865	
	RES.3	0.826	
Independence (IND)	IND.1	0.919	
	IND.2	0.919	
Fairness (FAIR)	FAIR.1	0.867	
	FAIR.2	0.909	
	FAIR.3	0.831	
LPD Performance (LPDP)	LPDP.1	0.745	
	LPDP.2	0.749	
	LPDP.3	0.714	
	LPDP.4	0.718	
	LPDP.5	0.842	
	LPDP.6	0.726	
	LPDP.7	0.715	
	LPDP.8	0.784	
	LPDP.9	0.785	
	LPDP.10	0.754	
	LPDP.11	0.699	
	LPDP.12	0.750	

The validity test in Table 5.2 indicates that the instrument employed to elucidate the research variables is legitimate, as the Pearson Correlation value is above 0.3.

Table 5.3. Reliability Test

No.	Variable	Cronbach Alpha	Description
1.	Transparency	0.815	Reliable
2.	Accountability	0.828	
3.	Responsibility	0.758	
4.	Independence	0.815	
5.	Fairness	0.839	
6.	Performance	0.926	

Table 5.3 displays the outcomes of the reliability assessment for all variables. The Cronbach Alpha values for these variables range from 0.758 to 0.926, indicating that all variables are reliable. Specifically, Accountability has a Cronbach Alpha of 0.828, Fairness has 0.839, Independence has 0.815, Performance shows the highest reliability with a value of 0.926, Responsibility has 0.758, and Transparency has 0.815. All Cronbach Alpha values exceed the acceptable level of 0.7, indicating that the data for these variables is internally consistent and credible for subsequent analysis.

Descriptive Statistics

Table 5.4 Descriptive Statistics

Construct	Min.	Max.	Mean	Std. Deviation
TRA	12.00	15.00	13.4902	1.28005
ACC	12.00	15.00	13.8039	1.26678
RES	12.00	15.00	13.6471	1.26371
IND	8.00	10.00	9.0392	0.92192
FAIR	12.00	15.00	13.5882	1.30006
LPDP	46.00	60.00	53.8333	4.80322

Table 5.4 presents the descriptive statistics for six constructs. The mean value describes the center of the value of a set of research data. While the standard deviation describes the distribution of values around the mean value. The higher the standard deviation value, the more spread out the values in a sample. Based on the table, the standard deviation values of all variables are below the mean value so that the distribution of sample data is classified as

good. The outcomes are presented by multiple linear regression analysis in Table 5.5.

Table 5.5. Multiple Linear Regression

Construct	B	t	Sig	Tolerance	VIF
Constant	5.859	3.037	0.003		
TRA	0.041	0.490	0.625	0.609	1.643
ACC	0.069	0.747	0.457	0.552	1.813
RES	0.095	0.911	0.365	0.475	2.105
IND	0.391	3.449	<0.001	0.478	2.091
FAIR	0.161	1.654	0.101	0.552	1.811

From the regression results, the following regression equation can be compiled:

$$LPDP = 5.859 + 0.041TRA + 0.069ACC + 0.095RES + 0.391IND + 0.161FAIR.$$

The regression analysis in Table 5.5 indicates that Transparency (TRA) has a t-value of 0.490 and a significance level of 0.625, which exceeds 0.05. Consequently, Transparency does not influence LPD Performance, leading to the rejection of H1. The influence of Accountability (ACC) on LPD Performance yields a t count of 0.747 and a significance value of 0.457, which is above 0.05, indicating that accountability does not impact LPD Performance, leading to the rejection of H2. The influence of Responsibility (RES) on LPD Performance yields a t count of 0.911 with a significance value of 0.365, which is above 0.05, indicating that responsibility does not impact LPD Performance, hence H3 is rejected. The influence of Independence (IND) on LPD Performance yields a t count of 3.449 with a significance value of <0.001, which is less than 0.05, indicating that independence positively affects LPD Performance, hence validating H4. The impact of Fairness (FAIR) on LPD Performance has a t count of 1.654 and a significance value of 0.101, which is greater than 0.05, indicating that fairness does not affect LPD Performance, leading to the rejection of H5.

Classical Assumption Test

Normality Test

Table 5.6 Normality Test

N		102
Normal Parameters	Mean	0.0000000
	Std. Deviation	1.68778867
Test Statistic		0.081
Asymp. Sig (2-tailed)		0.095

The employed test is the Kolmogorov-Smirnov Statistic. The normality test results in Table 5.6 indicate that the Asymp. Sig. (2-tailed) coefficient exceeds the significance threshold of 0.05. Consequently, it can be inferred that the data follows a normal distribution and is suitable for further study.

Multicollinearity Test

Table 5.7 Multicollinearity Test

Model	Unstandardized B	Coef. Std. Error	Std. Coef. Beta	t	Sig.	Stati
						Tolerance
1 (Constant)	5.859	1.929		3.037	0.003	
TRA	0.041	0.085	0.048	0.490	0.625	0.609
ACC	0.069	0.092	0.077	0.747	0.457	0.552
RES	0.095	0.105	0.102	0.911	0.365	0.475
IND	0.391	0.113	0.384	3.449	<0.001	0.478
FAIR	0.161	0.097	0.171	1.654	0.101	0.552

The multicollinearity test results presented in Table 5.7 indicate that the tolerance values for all independent variables are 0.609, 0.552, 0.475, 0.478, and 0.552, all exceeding 0.10. Additionally, the VIF values are 1.643, 1.813, 2.105, 2.091, and 1.811, all below 10. Consequently, it may be inferred that multicollinearity among the variables in the regression model is absent, rendering the model appropriate for application.

Heteroscedasticity Test

Table 5.8 Heteroscedasticity Test

Model	Unstandardized B	Coef. Std. Error	Std. Coef. Beta	t	Sig.
1 (Constant)	0.736	0.810		0.908	0.366
TRA	-0.010	0.035	-0.038	-0.294	0.769
ACC	-0.053	0.039	-0.184	-1.365	0.175
RES	0.021	0.044	0.068	0.467	0.642
IND	0.063	0.048	0.193	1.332	0.186
FAIR	0.007	0.041	0.022	0.166	0.868

The heteroscedasticity test results in Table 5.8 indicate that the significance values for all the variables are 0.769, 0.175, 0.642, 0.186, and 0.868, respectively, all exceeding the 0.05 significance threshold. This indicates that the research variables are free from heteroscedasticity.

F Test

Table 5.9 F Test

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	342.621	5	68.524	14.571	<0.001
Residual	451.458	96	4.703		
Total	794.078	101			

The F Test in Table 5.9 yielded F value of 14.571 with a significance level of <0.001, which is less than 0.05. The significance value of F is less than 0.05, indicating that all independent factors in the model collectively impact LPD performance. This research paradigm is viable for application.

Determination Coefficient Test

Table 5.10 Determination Coefficient Test

Model	R	R^2	Adj. R^2	Std. Error of the Estimate
1	0.657	0.431	0.402	2.16857

The Adjusted R Square value in Table 5.10 is 0.402, indicating that 40.2% of the variability in the dependent variable can be elucidated by the independent variable. The remaining 59.8% is attributed to variables not included in the research model.

5.6 Discussion

The Influence of Transparency on the Performance of LPD

Transparency of all information must be implemented by LPD to provide trust for stakeholders The initial hypothesis posits that transparency positively influences the performance of LPD. The test findings indicate that transparency does not influence the performance level of LPD, hence refuting the first hypothesis (H1). These results indicate that even though LPD applies the principle of high transparency, it still does not affect the increase or decrease in the achievement of LPD performance. This happens because the management of LPDs carried out by village communities is only based on trust values. Whether or not there is a principle of transparency in LPDs, village communities do not have a problem because of this attitude of trust. In addition, because there is a supervisory body that assesses the development of the financial performance of LPD, it has presented financial reports in a timely, adequate, and accurate manner to increase the trust of stakeholders (Tri et al., 2020). This makes LPD more likely to pay attention to supervision from the supervisory body. The findings of this research align with those of Handayani et al. (2020), which indicate that transparency does not influence the performance level of LPD.

The Influence of Accountability on the Performance of LPD

The second hypothesis posits that accountability positively influences the performance of LPD. The test results indicate that

accountability does not influence the performance of LPD, hence rendering the second hypothesis (H2) unsupported. This means that in its management, although LPD has clear accountability according to the LPD structure, it still does not affect the increase or decrease in LPD performance. This happens because, with employee loyalty, where employees already have knowledge, experience, and commitment in their fields, employees no longer need to understand the structure and clarity of accountability of LPD. With loyalty that is owned by the ability, understanding, and responsibility of self-awareness, they try to obey and explain their duties with a full sense of responsibility. The findings of this study align with the research conducted by Sastrawan et al. (2021) and Suwarmika et al. (2019), which indicates that accountability does not influence the performance of LPD.

The Influence of Responsibility on the Performance of LPD

The third hypothesis posits that accountability positively influences the performance of LPD. The test results indicate that accountability does not influence LPD performance, hence rendering the third hypothesis (H3) unsupported. This means that high or low responsibility will not affect LPD performance because LPD supervision is implemented very well and stably by the LPD supervisory body. Good supervision will also produce good output to avoid deviations from the budget and its processes and authorities. This shows that the influence or absence of responsibility in carrying out its activities does not affect LPD performance. This is due to the optimal performance of LPD. The findings of this study align with the research conducted by Jannah and Hermanto (2020), which indicated that accountability does not influence the performance levels of LPD.

The Influence of Independence on the Performance of LPD

The fourth hypothesis posits that independence positively influences the performance of LPD. The test findings indicate that independence positively influences the performance of LPDs,

hence validating the fourth hypothesis (H4). This study's results demonstrate that increased independence correlates with enhanced performance of LPDs, and conversely. Management must possess the capability to render decisions that are autonomous and impartial. Management must maintain an absence of affiliations and conflicts of interest with any entity. This can undoubtedly assist management in the strategic decision-making process to enhance LPD performance. The findings of this research are corroborated by the study conducted by Handayani et al. (2020), Junaidi et al. (2020), and Praningsih et al. (2019), which indicates that independence positively influences the performance of LPD.

The Influence of Fairness on the Performance of LPD

The fifth hypothesis posits that fairness positively influences the performance of LPD. The test results indicate that fairness does not influence the performance of LPDs, hence rendering the fifth hypothesis (H5) unsupported. These results indicate that even though LPD applies a high principle of fairness, it still does not affect the increase or decrease in the achievement of LPD performance. The primary determinant in enhancing LPD performance is not the equality of opportunities afforded to each component of the LPD for contribution, this is thought to be because the decision-making process in LPDs is based on an agreement where decisions are made with the approval of the traditional village (Sastrawan et al., 2021). This shows that the principle of fairness does not affect LPD performance. This is proven by research conducted by Jannah & Hermanto (2020), Sastrawan et al. (2021), and Suwarmika et al. (2019) which state that fairness does not determine the high or low performance of LPD.

5.7 Conclusion

LPD is a local financial institution in Bali Province with simpler management compared to other banking institutions. This research seeks to ascertain the impact of effective GCG principles on enhancing LPD performance. Based on the results of the regression

analysis, it can be concluded that out of the five hypothesized factors, only Independence (H4) significantly influences the performance of LPD. Transparency (H1), Accountability (H2), Responsibility (H3), and Fairness (H5) do not exhibit a significant effect on LPD performance, as their t-values and significance levels exceed the 0.05 threshold. Therefore, H4 is accepted, while H1, H2, H3, and H5 are rejected.

This outcome highlights the critical role of independence in enhancing LPD performance. Independence, characterized by decision-making autonomy and operational self-sufficiency, appears to be the primary driver in achieving optimal performance for LPD. On the other hand, factors like transparency, accountability, responsibility, and fairness, while essential components of good governance, do not significantly contribute to LPD performance in the current context.

Suggestion

Given that Independence has a strong and positive influence on LPD performance, it is recommended that LPDs focus on strategies that enhance their independence. This could involve empowering leaders and managers to make more autonomous decisions, reducing bureaucratic barriers, and minimizing external interference in daily operations. LPDs should also explore ways to strengthen internal governance structures that encourage independent thinking and self-reliant financial management.

Additionally, although transparency, accountability, responsibility, and fairness did not have a statistically significant effect on performance in this study, these factors remain important to the overall governance of LPDs. Therefore, it is advisable to continue promoting these principles as part of a holistic approach to good governance, even if their direct impact on performance may not be immediately evident.

Implication

The findings of this study have several implications for the management and governance of LPDs. The significant positive influence of Independence suggests that policy-makers and LPD leaders should prioritize frameworks and practices that safeguard the institution's operational autonomy. Independence could serve as a crucial factor in navigating financial challenges and ensuring long-term sustainability.

Furthermore, the lack of significant impact from transparency, accountability, responsibility, and fairness suggests that these factors may not directly translate into improved performance, at least in the short term. However, their importance in building trust, ensuring ethical conduct, and maintaining good governance should not be underestimated. Future research could further investigate how these elements contribute to the overall resilience and ethical standards of LPDs, potentially exploring their long-term impact on performance beyond immediate financial results.

REFEREENCE

Adiputra, I. M. P., Atmadja, A. T., & Saputra, K. A. K. (2014). Culture of Tri Hita Karana as moderating effect of locus of control on the performance of internal auditor (studies in the office of the Provincial Inspectorate in Bali). *Research Journal of Finance and Accounting, 5*(22), 27-35.

Anggraini, D., Heriningsih, S., & Windyastuti, W. (2021). The influence of accountability, transparency and supervision on budgeting performance with the concept of value for money in Village Owned Enterprises in Klaten Regency. *Journal of International Conference Proceedings*, 4(3), 704-713. https://doi.org/10.32535/jicp.v4i3.1419

Aras, G., & Crowther, D. (2008). Governance and sustainability: An investigation into the relationship between corporate governance and corporate sustainability. *Management*

Decision, 46(3), 433-448. https://doi.org/10.1108/00251740810863870

Astini, N. K. A. T., & Yadnyana, I. K. (2019). Pengaruh penerapan GCG dan budaya Tri Hita Karana pada kinerja keuangan LPD di Kabupaten Jembrana [The influence of GCG implementation and Tri Hita Karana culture on LPD financial performance in Jembrana Regency]. *E-Jurnal Akuntansi, 27*(1), 90-118. https://doi.org/10.24843/EJA.2019.v27.i01.p04

Bagiana, I. K. (2022). *Corporate Governance: Tinjauan Teori dan Praktis [Corporate Governance: A Review of Theory and Practice].* Universitas Mahasaraswati Press.

Dzingai, I., & Fakoya, M. B. (2017). Effect of corporate governance structure on the financial performance of Johannesburg Stock Exchange (JSE)-listed mining firms. *Sustainability, 9*(6), 867. https://doi.org/10.3390/su9060867

Handayani, N. K. P., Suryandari, N. N. A., & Putra, G. B. B. (2020). Pengaruh prinsip-prinsip Good Corporate Governance terhadap kinerja Lembaga Perkreditan Desa (LPD) di Kecamatan Rendang Kabupaten Karangasem [The influence of Good Corporate Governance principles on the performance of Village Credit Institutions (LPD) in Rendang District, Karangasem Regency]. *Kumpulan Hasil Riset Mahasiswa Akuntansi (KHARISMA), 2*(1), 11-21.

Jannah, S. R., & Hermanto, S. B. (2020). Pengaruh prinsip-prinsip Good Corporate Governance terhadap kinerja puskesmas di Surabaya [The influence of Good Corporate Governance principles on the performance of community health centers in Surabaya]. *Jurnal Ilmu dan Riset Akuntansi, 9*(10).

Jantadej, K., & Wattanatorn, W. (2020). The effect of corporate governance on the cost of debt: Evidence from Thailand. *The Journal of Asian Finance, Economics and Business, 7*(9), 283-291. https://doi.org/10.13106/jafeb.2020.vol7.no9.283

Jensen, M. C., & Meckling, W. H. (2019). Theory of the firm: Managerial behavior, agency costs and ownership structure. In *Corporate Governance* (pp. 77-132). Gower.

Junaidi, A., Yuniarti, N., & Radiana, L. (2020). Pengaruh Good Corporate Governance terhadap kinerja karyawan perusahaan BUMN. *Jurnal Akuntansi, Keuangan, dan Teknologi Informasi Akuntansi, 1*(2), 207-217. https://doi.org/10.36085/jakta.v1i2.1135

Kopecka, N. (2015). The balanced scorecard implementation, integrated approach and the quality of its measurement. *Procedia Economics and Finance, 25*, 59-69. https://doi.org/10.1016/S2212-5671(15)00713-3

Mahadewi, I. A. A., & Asri, D. P. (2019). Pengaruh penerapan prinsip-prinsip Good Governance terhadap kinerja pada rumah sakit di Kota Denpasar [The influence of the implementation of Good Governance principles on performance in hospitals in Denpasar City]. *E-Jurnal Akuntansi Universitas Udayana, 27*(1), 568-593.

Mahmood, Z., Kouser, R., Ali, W., Ahmad, Z., & Salman, T. (2018). Does corporate governance affect sustainability disclosure? A mixed methods study. *Sustainability, 10*(1), 207. https://doi.org/10.3390/su10010207

Mulyawan, I. P. A., Wirama, D. G., & Badera, I. D. N. (2017). Budaya Tri Hita Karana sebagai pemoderasi pengaruh prinsip Good Corporate Governance pada kinerja Lembaga Perkreditan Desa di Kota Denpasar [Tri Hita Karana Culture as a moderator of the influence of Good Corporate Governance principles on the performance of Village Credit Institutions in Denpasar City]. *E-Jurnal Ekonomi Dan Bisnis Universitas Udayana, 8*, 3193. https://doi.org/10.24843/EEB.2017.v06.i08.p10

Munidewi, I. A. B., Suryandari, N. N. A., & Suryawan, I. M. (2019). Analysis of factors influences fraudulent tendencies in Denpasar rural credit institutions. *International Journal of*

Applied Business and International Management, *4*(3), 45-63. https://doi.org/10.32535/ijabim.v4i3.682

Praningsih, I. D. A. P. I., Putra, I. G. C., & Sunarwijaya, I. K. (2019, December). Corporate Governance dan Kinerja Lembaga Perkreditan Desa di Kecamatan Abiansemal, Badung, Bali. In *Seminar Nasional Inovasi dalam Penelitian Sains, Teknologi dan Humaniora-InoBali* (pp. 644-655).

Riboldazzi, S. (2016). Corporate governance and sustainability in Italian large-scale retail companies. *European Scientific Journal, 12*(16), 1-23. https://dx.doi.org/10.19044/esj.2016.v12n16p1

Sari, N. K. D. P., & Putra, I. N. A. (2021). The effect of Good Corporate Governance principles and Tri Hita Karana culture on financial performance. *American Journal of Humanities and Social Sciences Research, 5*(2), 278-289.

Sastrawan, I. D. P. Y., Suryandari, N. N. A., & Putra, G. B. B. (2021). Pengaruh prinsip–prinsip Good Corporate Governance dan budaya Tri Hita Karana terhadap kinerja Lembaga Perkreditan Desa Se-Kota Denpasar [The influence of the principles of Good Corporate Governance and the Tri Hita Karana culture on the performance of Village Credit Institutions throughout Denpasar City]. *Prosiding Webinar Kolaborasi UHN I Gusti Bagus Sugriwa Denpasar dan Universitas Mahasaraswati Denpasar: Nilai Ekonomi Upacara Agama Hindu di Bali, 7*(78.603), 193.

Sawitri, P. P., & Ramantha, I. W. (2018). Pengaruh penerapan prinsip-prinsip Good Corporate Governance pada kinerja Bank Perkreditan Rakyat di Kota Denpasar [The influence of the implementation of Good Corporate Governance principles on the performance of Rural Credit Banks in Denpasar City]. *E-Jurnal Akuntansi, 23*(2), 1093-1118. https://doi.org/10.24843/EJA.2018.v23.i02.p11

Sukardika, I. W., Anggara, I. W. G. W. P., & Wistawan, I. M. A. P. (2020). Pengaruh penerapan prinsip-prinsip Good Corporate Governance pada kinerja Bank Perkreditan

Rakyat di Kabupaten Badung [The influence of the implementation of Good Corporate Governance principles on the performance of Rural Credit Banks in Badung Regency]. *E-Jurnal Akuntansi*, *30*(8), 2025-2039. https://doi.org/10.24843/EJA.2020.v30.i08.p10

Suryandari, N. N. A., Susandya, A. P. G. B. A., & Sari, D. M. M. Y. (2023a). The effect of company characteristics on earnings management. *International Journal of Accounting & Finance in Asia Pasific*, *6*(3), 67-74. https://doi.org/10.32535/ijafap.v6i3.2073

Suryandari, N. N. A., Yadnyana, I. K., Ariyanto, D., & Erawati, N. M. A. (2023b). Determinant of fraudulent behavior in the Indonesian rural bank sector using the fraud hexagon perspective. *Banks and Bank Systems, 18*(4), 181-194. http://dx.doi.org/10.21511/bbs.18(4).2023.16

Suwarmika, I. K., Suryandari, N. N. A., & Susandya, A. P. G. B. A. (2019). Pengaruh penerapan prinsip-prinsip Good Corporate Governance pada kinerja Lembaga Perkreditan Desa [The influence of the implementation of Good Corporate Governance principles on the performance of Village Credit Institutions]. *Kumpulan Hasil Riset Mahasiswa Akuntansi (KHARISMA), 1*(1), 198-217.

Tri, I. G. A. A. E., Wati, B., Suryandari, N. N. A., & Putra, G. B. B. (2020). Implikasi GCG dan budaya lokal bali terhadap kinerja LPD [Implications of GCG and local Balinese culture on LPD performance]. *Juara: Jurnal Riset Akuntansi, 10*(1). https://doi.org/10.36733/juara.v10i1.756

Todorovic, I. (2013). Impact of corporate governance on performance of companies. *Montenegrin Journal of Economics, 9*(2), 47-54.

Village Credit Institution Empowerment Agency of Bali Province (LPLPD Bali). (n.d.). https://lpdbali.com/

Wati, P. R. S., & Setiawan, P. E. (2023). Transparency, accountability, responsibility, independency and fairness: An implementation of financial performance. *World Journal of*

Advanced Research and Reviews, *19*(1), 386-393. https://doi.org/10.30574/wjarr.2023.19.1.1363

Yahya, A. S. B., & Shukeri, S. N. (2014). Corporate governance and firm financial performance for Malaysian public listed company. *Advances in Environmental Biology*, 383-389.

2. Conclusion

In conclusion, *Scope Finance* brings together multifaceted discussions and empirical findings that highlight the vital role of financial behavior, strategic management, and policy intervention in shaping financial outcomes at both micro and macro levels. The key takeaways emphasize the importance of fostering financial literacy, embracing technological advancements such as digital financial inclusion, and promoting responsible financial behavior, including Islamic finance principles.

Each chapter contributes to a deeper understanding of how effective financial management, investment experience, and corporate financial strategies influence financial freedom, firm value, and economic resilience, especially amidst uncertainties. Moreover, this book underscores the significance of inclusive financial policies and practices that support MSMEs, individuals, and enterprises in achieving sustainable financial growth.

Ultimately, it is hoped that the knowledge shared in this book will inspire future research, enhance financial practices, and encourage informed financial decision-making for the betterment of society and economic development.

Perkumpulan Praktisi Bisnis International dan Manajemen (Association of International Business and Professional Management)

FINANCIAL STRATEGIES AND BEHAVIORAL INSIGHTS:

NAVIGATING MODERN FINANCE IN A DIGITAL ERA

2026

BOOK CHAPTER

Perkumpulan Praktisi Bisnis International dan Manajemen