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Original Research Article

Generation Z Investment Decisions Influenced by Financial Behavior: Mediated by Financial Literacy

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Abstract: Generation Z, born between the mid-1990s and early 2010s, has become a desirable demographic for the financial industry due to their unique upbringing in the digital age. This generation is proficient with technology, cellphones, and online platforms. Generation Z is well-suited for digital banking services, online investing platforms, and other fintech advances. This study investigates the impact of financial literacy on investment decisions, using financial behaviour as a mediator, based on the Theory of Planned Behaviour. Employing a quantitative methodology, a study was conducted on a group of 110 Generation Z individuals that engage in stock market investments in Malang City. Through the application of Structural Equation Modelling (SEM) research, it is demonstrated that financial literacy exerts an impact on both financial behaviour and investment decisions. Furthermore, financial behaviour acts as a mediator in the relationship between financial literacy and investment decisions. Research findings suggest that Generation Z in Malang City should enhance their ability to forecast investment risks in order to make more informed investment choices. Generation Z is anticipated to consistently seek knowledge pertaining to strong investment portfolios from fellow investors in order to enhance their investment choices.

Keywords: Financial Literacy, Financial Behavior, Investment Decisions, *Theory of Planned Behavior*.

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INTRODUCTION

Generation Z, encompassing individuals born from the mid-1990s to the early 2010s, has emerged as a lucrative demographic for the financial industry. This is mostly due to the fact that Generation Z is the first cohort to have experienced a complete immersion in the digital age, displaying a high level of familiarity and proficiency with technology, cellphones, and online platforms. Generation Z is very receptive to digital banking services, online investing platforms, and other fintech advances. They have a strong preference for mobile banking and digital transactions, favouring them over traditional means. This backdrop has given rise to a highly intelligent generation that is adept at gathering numerous sources of knowledge and seamlessly combining virtual and offline experiences (Francis & Hoefel, 2018).

Generation Z tends to be a generation that is more financially independent and wants to earn a larger income to achieve financial goals. However, generation Z tends to be more cautious in choosing investment instruments. This is in accordance with the findings of a poll conducted by the Kata data Insight Center, which revealed that 48.1% of generation Z started investing in 2021, especially in stock-related instruments. Referring to Utami, (2021) explains that the majority of investors in the capital market are the young millennial age group with a maximum age of 30 years. One of the causes is the emergence of a trend on social media, namely Financial Independence Retire Early (FIRE).

Based on data from KSEI as of March 2022, it shows that the majority of investors in the capital market come from under 30 years of age, amounting to 60.18% of 8,387,538, followed by the 31-40 year age group with a percentage of 21.61%. Referring to Yogatama, (2022) stated that the results of a survey conducted by Bank OCBC NISP reported that 78% of the young generation in Indonesia did not fully understand the risks and benefits of investment, because the young generation currently only invests because they follow trends on

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social media and consider investment to be just an opportunity to gain instant profits.

Investment decisions made by individuals will be successful if the individual has good financial literacy. Chen and Volpe (1998) define financial literacy as knowledge to manage finances to live more prosperously in the future. Someone with good financial literacy knowledge often has better control in making investment decisions because they have adequate financial information, for example, knowing the range of interest rates, credit risks, and existing conditions on the market (Hilgert *et al.*, 2003). Financial literacy means measuring a person's understanding of beliefs about finances in the financial sector which can encourage investors to make better risk decisions (Ariani *et al.*, 2016). Research by Fridana & Asandimitra (2020) and Upadana & Herawati (2020), Panjaitan & Listiadi (2021), Krisnawati, A. (2019), Upadana & Herawati (2020), states that financial literacy is significant in investment decisions. Different results are shown byYundari and Artati (2021), Budiarto (2017), Putra *et al.*, (2016), Pradikasari & Isbanah (2018) andMutawally & Asandimitra (2019) found that financial literacy did not affect investment decisions.

The existence of differences in research results (research gap) opens up a gap to re-examine the influence of financial literacy on investment decisions and financial behavior as a mediator.

Ricciardi & Simon (2000) assert that financial behaviour is determined by the interplay of many scientific disciplines. The primary discipline is psychology, which examines cognitive and behavioural processes, as well as the impact of the external physical environment on these psychological processes. The second scientific framework encompasses money, encompassing the organisation of the financial system, the allocation, and utilisation of resources. An individual's financial behaviour will be favourable if they possess a high level of financial literacy. The influence of financial literacy on financial behaviour has been substantiated by the findings of several studies undertaken by Sholeh (2019), Gumilar & Aryati (2020), and Fitriarianti (2018).

Human decision-making is influenced by psychological factors, and taking a dangerous decision can be seen as a deliberate choice or gamble. According to Manurung (2012), persons who invest consider not only the projected performance of their investment instruments, but also take into account psychological aspects that have a substantial impact on their decision-making process. The research conducted by Upadana & Herawati (2020), Arianti (2020), Julita & Prabowo (2021), and Ratnasari (2021) revealed that financial behaviour has a significant impact on investment choices.

This study utilises the theory of Planned Behaviour to examine how intentions impact an individual's behaviour. The study focuses on the influence of financial literacy on Generation Z's decision to invest in shares, with financial behaviour serving as a mediator.

LITERATURE REVIEW

Theory of Planned Behavior

TPB is an extension of the Theory of Reasoned Action (TRA) (Ajzen, 1991) with the addition of a construct, namely perceived behavioral control. TPB explains that individual behavior can be predicted based on interest in carrying out the behavior (Ashidiqi & Arundina, 2017). Attitudes, subjective norms, and perceived behavioral control are three factors the TPB influences regarding a person's interest in behaving. Investment interest is assumed to be a necessary condition for acting voluntarily which is triggered by investors' attitudes, social pressures, and opportunities or obstacles faced by individuals (Alleyne & Broome, 2011).

Investation Decision

Ningrum (2017) said that evaluation and adjustment of investment proposals must be carried out before choosing a capital investment. According to signal theory, fixed investment can indicate positive future growth prospects for the company, which in turn increases the company's share price (Salbiyanti, 2018). Hamza and Arif's (2019) investment decision indicators are individual financial needs, self and company image, accounting information, and supporting information. Tandelin (2010) and Atkinson and Messy (2012) use risk, return, and risk diversification to evaluate investment decisions. Ratnawati *et al.*, (2022) investment decision indicators, namely risk, return, risk diversification, personal financial needs, and self/company image.

Financial Literacy

Financial literacy is a good understanding of financial concepts and the ability to manage finances correctly when making long-term and short-term decisions according to economic conditions (Remund, 2010). According to Lusardi and Mitchell (2014), financial literacy includes an understanding of matters related to finance and the desire to apply this knowledge in one's life. Financial literacy can be defined as all the knowledge, knowledge, skills, attitudes and behavior needed to make financial decisions, one of which is investment decisions.

Behavioral Finance

Shefrin (2000) said that financial behavior is research on how psychological factors influence a person's financial behavior. More specifically, behavioral finance seeks answers from a human perspective about the what, why, and how of investing and finance. Kempson & Finney (2017) state that financial behavior includes reducing expenses, saving regularly, not borrowing money for daily needs, budgeting, and managing finances. Rahim & Balan (2020) explain financial behavioral metrics such as record keeping, debt, savings, and investment, and budgeting and planning. Ratnawati *et al.*, (2022) financial behavior indicators, namely financial planning, budget planning and cost control.

The conceptual framework of this research is derived from an analysis of the observed phenomena, theoretical studies, and empirical studies.

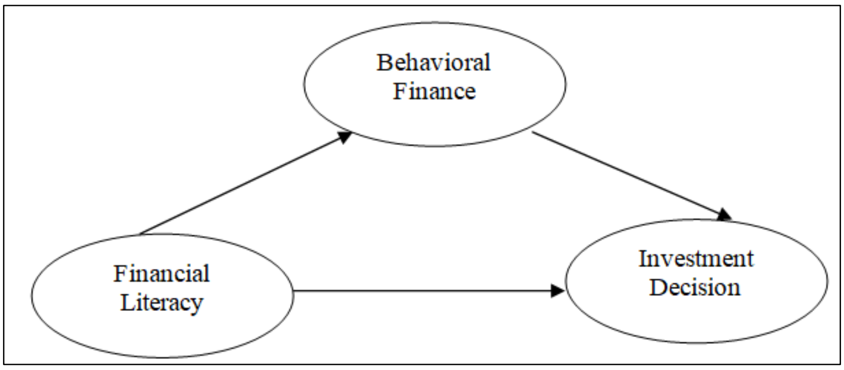

Figure 1: Conceptual Framework Model

HYPOTHESIS DEVELOPMENT

The success of people' investment decisions hinges upon their possession of strong financial literacy. According to Chen and Volpe (1998), financial literacy refers to the understanding and ability to effectively handle one's finances with the goal of achieving more prosperity in the future. An individual with a high level of financial literacy possesses the necessary knowledge and understanding to make informed investment choices. This includes being well-informed about various financial factors such as interest rates, credit risks, and market circumstances (Hilgert *et al.*, 2003). Financial literacy means measuring a person's understanding of beliefs about finances in the financial sector which can encourage investors to make better risk decisions (Ariani *et al*., 2016). Research by Fridana & Asandimitra (2020), Upadana & Herawati (2020), Panjaitan & Listiadi (2021), and Krisnawati, A. (2019) states that financial literacy is significant in investment decisions. Based on the line of thought and variable relationships that have been explained, the following hypothesis can be formulated in this research:

H1 Financial literacy has a significant effect on investment decisions.

Ricciardi & Simon (2000) assert that financial behaviour is determined by the framework of multiple disciplines. The primary discipline is psychology, which examines cognitive and behavioural processes and their interaction with the external physical environment. The second scientific framework encompasses money, encompassing the organisation of the financial system, the allocation, and utilisation of resources. Individual financial behavior will be good if the individual has good financial literacy. This is proven by the results of research conducted by Sholeh, B (2019), Gumilar & Aryati (2020), and Fitriarianti (2018), who found that financial literacy influences financial behavior. Based on the line of thought and variable relationships that have been explained, a hypothesis can be formulated in this research as follows:

H2Financial literacy significant influence on financial behavior.

Human decision-making is influenced by psychological factors, and taking a dangerous decision can be seen as a deliberate choice or gamble. According to Manurung (2012), individuals who engage in investing consider not only the projected performance of their investment instruments, but also take into account psychological elements that significantly influence their decision-making process. The research conducted by Upadana & Herawati (2020), Arianti (2020), Julita & Prabowo (2021), and Ratnasari (2021) revealed that financial behaviour has a significant impact on investment choices. Given the presented line of reasoning and the interactions between variables that have been elucidated, the following hypothesis can be developed in this research:

H3 Financial behavior significantly affects infestation decisions.

Based on the development of previous research conducted bySholeh (2019), Gumilar & Aryati (2020), Fitriarianti (2018) found that financial literacy influences financial behavior, and Upadana & Herawati (2020), Arianti (2020), Julita & Prabowo (2021) and Ratnasari (2021) found that financial behavior influences investment decisions. Based on the line of thought and variable relationships that have been explained, the following hypothesis can be formulated in this research:

H4 Financial behavior mediates the influence of financial literacy on investment decisions.

METHOD

This study employs a quantitative methodology to examine explanatory research. The study investigates the influence of financial literacy on investment choices, with financial behaviour acting as an intermediary. This study specifically examines Generation Z individuals who actively participate in share investing inside the capital market of Malang City. To determine the sample size, we multiply the number of indicators from the three variables by 10, as recommended by Ferdinand (2006), since the precise population size is not known. The sample size was calculated to be 110 respondents by multiplying 11 by 10, as indicated in these provisions. The sampling process involved the utilisation of the stratified random sampling approach after determining a sample size of 110 respondents. This method guarantees that every individual in the population has an equitable opportunity to be chosen as a member of the sample.

The operational definitions of the variables used in this research are presented in Table 1.

Table 1: Operational Matrix of Research Variables

Variable	Indicator	Source
Financial literacy	Knowledge of financial concepts	(Remund, 2020)
	Ability to manage personal finances	
	Ability to make financial decisions	
	Confidence to make future financial planning	
Financial behavior	Consumption	(Nababan & Sadalia 2012) (Marsis, 2013)
	cash flow management	
	financial (spending) plan	
	savings and investment	(Marsis, 2013)
Investation decision	Return	
	Risk	
	The Time Factor	

In this study, each answer to the question in the questionnaire was given a score, 1 = Strongly Disagree, 2 = Disagree, 3 = Neutral, 4 = Agree and 5 = Strongly Agree. Data analysis used in the research used Structural Equation Modeling (SEM). Meanwhile, to find out whether a variable can act as a mediating variable, the sobel test is used

RESULTS

SEM Analysis Results

Test results with *Structural Equation Modelling* (SEM), presented in Figure 2 below.

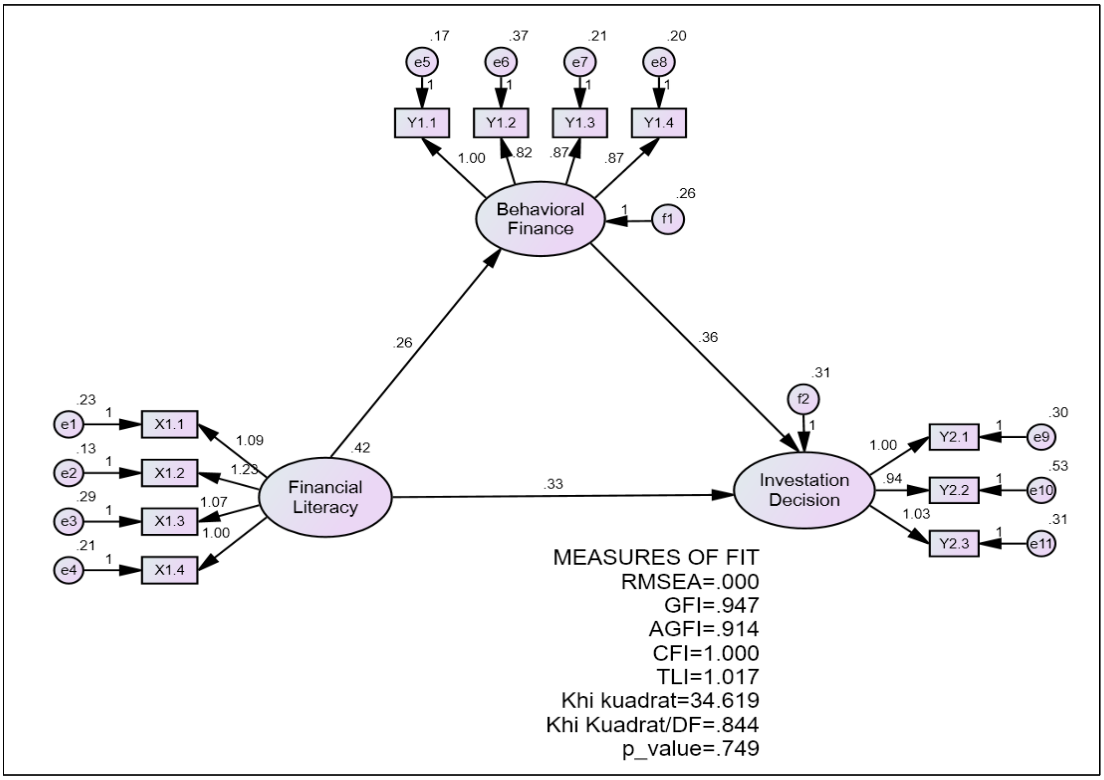

Figure 2

The model test results presented in Figure 2 are evaluated based on goodness of fit indices criteria and show that the model evaluation of the construct as a whole has produced a value above critical, therefore the model can be categorized as suitable and suitable for use, so that further discussion can be interpreted.

Hypothesis Testing Results

Tests of direct and indirect influence are shown in Table 2 below.

Table 2: Results of Regression Weight Analysis

Connection					Cr	p-value	Information
Financial Literacy	->	Behavioral Finance			2,817	0.005	Significant
Financial Literacy	->	Investment decisions			2,897	0.004	Significant
Behavioral Finance	->	Investment decisions			2,384	0.017	Significant
Financial Literacy	->	Behavioral Finance	->	Investment decisions	1,980	0.047	Significant

The influence of financial literacy on financial behavior produces a Cr value of 2.817 with a p-value of 0.005, so the hypothesis which states that financial literacy directly has a significant effect on financial behavior can be accepted. The results of testing the influence of financial literacy on investment decisions produce a Cr value of 2.897 with a p-value of 0.004, so the hypothesis which states that financial literacy directly has a significant influence on investment decisions can be accepted. The results of testing the influence of financial behavior on investment decisions produce a Cr value of 2.384 with a p-value of 0.017, so the hypothesis which states that financial behavior directly has a significant influence on investment decisions can be accepted.

The path coefficient for the financial literacy variable, controlled by financial behaviour, has a significant impact on investment decisions, with a Cr value of 1.980 and a p-value of 0.047. Therefore, we can accept the hypothesis that financial behaviour mediates the influence of literacy on investment decisions.

DISCUSSION

Influence financial literacy on financial behavior

The data conclusively demonstrates that financial literacy has a significant impact on financial behaviour. The reason for this outcome can be attributed to the fact that in the midst of the fast-paced nature of contemporary society, possessing a strong understanding of financial matters significantly influences an individual's financial conduct. Financial literacy refers to an individual's capacity to comprehend and effectively handle their personal finances. Financial literacy encompasses more than just acquiring knowledge; it serves as a solid basis for developing responsible and enduring financial habits. A profound comprehension of financial literacy empowers individuals to effectively oversee their resources, make astute choices, and attain enduring financial stability in their daily lives.

Financial literacy encompasses the understanding and consciousness of financial principles. An individual's aptitude in managing their own finances is exemplified by their proficiency in making astute short-term financial choices and strategizing for the future in light of prevailing economic circumstances. This knowledge contributes to the enhancement of Generation Z's financial behaviour, particularly in terms of investing in the stock market. This is accomplished through the implementation of a financial plan, which is a comprehensive document or guide outlining an individual's financial objectives and the strategies they will employ to attain these goals. A financial plan encompasses several elements such as income, expenses, investment planning, debt management, and financial protection.

This viewpoint is presented by Isna, A *et al*., (2020), who discovered that possessing a high level of financial literacy enables individuals to effectively manage their financial circumstances and comprehend the strategies for handling income and expenses. This proficiency ensures not only the sustainability of businesses but also the long-term financial stability of individuals, thereby promoting financial literacy. High-quality individuals will positively impact financial conduct. The findings of this research reinforce the conclusions drawn from other empirical investigations carried out by Sholeh (2019), Gumilar & Aryati (2020), and Fitriarianti (2018), which demonstrated a significant relationship between financial literacy and financial behaviour.

Influence financial literacy on investment decisions

The analysis results conclusively demonstrate that financial literacy has a significant impact on investment decisions. The reason for this outcome can be attributed to the fact that generation Z possesses a profound comprehension of financial principles, enabling them to make astute and well-informed investing choices. This phenomenon arises because to the benefits of financial iteration, which enables consumers to comprehend diverse investment vehicles, such as stocks. With a comprehensive understanding, individuals may select investment instruments that align with their financial objectives, risk tolerance, and investment timeframe.

Financial literacy refers to an individual's comprehension of financial concepts, demonstrated by their ability to effectively manage their personal money. This is assessed by their accuracy in making short-term judgements and preparing for future financial needs based on economic conditions. It also encompasses the ability to make investment selections that are anticipated to yield profits.

This idea is subjective. According to Chen and Volpe (1998), financial literacy refers to the understanding and ability to effectively handle financial matters in order to achieve more prosperity in the future. An individual with a strong understanding of financial literacy is typically more capable of making informed investment decisions due to their access to comprehensive financial information, such as knowledge of interest rate ranges, credit risks, and current market circumstances (Hilgert *et al.*, 2003). The findings of this research reinforce the conclusions drawn in earlier empirical studies conducted by Fridana & Asandimitra (2020) and Upadana & Herawati (2020), Panjaitan & Listiadi (2021), Krisnawati, A. (2019), Upadana & Herawati (2020). These studies affirm that financial literacy exerts a favourable and noteworthy influence on investment choices.

Influencefinancial behavior towards investment decisions

The analytical results conclusively demonstrate that financial behaviour significantly impacts investing decisions. The findings show the significant influence of financial behaviour on an individual's investment choices. Psychological and psychological traits significantly influence individuals' inclination to engage in investment risks. Individuals with a greater inclination for adventure tend to allocate their assets towards more volatile instruments, whilst individuals with a more cautious approach tend to go for more secure and steady investments. Gaining insight into financial behaviour is essential as it enables individuals to oversee their investment portfolios effectively. Identifying and overcoming psychological inclinations can facilitate the process of making well-informed and enduring investment choices over an extended period of time.

The financial behaviour of Generation Z in investing in shares in the capital market is guided by a financial plan. This document outlines a person's financial goals, including income, expenses, investment planning, debt management, and financial protection. It aims to improve investment decisions and ultimately yield benefits.

According to Manurung (2012), individuals who invest consider not only the potential of their investment instruments but also psychological variables that significantly influence decision-making. The findings of this study bolster the prior empirical investigations carried out by Upadana & Herawati (2020), Arianti (2020), Julita & Prabowo (2021), and Ratnasari (2021), which concluded that financial behaviour has a significant impact on investment choices.

Financial behavior mediates the influence of financial literacy on investment decisions

The analysis results demonstrate that financial behaviour can act as a mediator in the impact of financial literacy on investment decisions. These findings suggest that financial literacy is rooted in the comprehension of financial principles, as evidenced by an individual's ability to effectively handle their personal finances. This proficiency is gauged by their aptitude for making accurate short-term decisions and engaging in future financial planning, taking into account economic circumstances. Consequently, it enhances the financial behaviour of Generation Z when it comes to investing in stocks within the capital market. This investment approach is implemented through a financial plan, which serves as a comprehensive document or guide outlining an individual's financial objectives and the strategies they will employ to attain these goals. Exhibiting sound financial behaviour positively influences the quality of investing decisions. Z is engaging in equity investments in the financial market with the aim of generating a financial gain.

The findings of this study build upon prior research conducted by Sholeh (2019), Gumilar & Aryati (2020), and Fitriarianti (2018), which demonstrated that financial literacy has an impact on financial behaviour. Additionally, Upadana & Herawati (2020), Arianti (2020), Julita & Prabowo (2021), and Ratnasari (2021) found that financial behaviour plays a role in influencing investment decisions.

Research Implications

Financial behavior can act as a mediator for the impact of financial literacy on investment choices. Ajzen (1991) introduced the notion of planned behavior, which explains behaviors that necessitate careful preparation. The notion of planned behavior posits that humans are rational beings who consistently consider information while making decisions. This theory presupposes that investors possess the requisite knowledge or information to evaluate investment prospects and associated dangers. Investors must possess the necessary financial expertise and knowledge for this procedure (Salerindra, 2020). The idea of planned behavior includes an element known as perceived behavioral control. The concept of knowledge is mirrored in the financial literacy variable within the framework of perceived behavioral control. Financial literacy refers to the degree to which Generation Z possesses information, abilities, and beliefs that impact their behaviour in managing finances, particularly when it comes to investing in shares in the capital market.

CONCLUSION

The financial behaviour and investment decisions made by Generation Z are influenced by their financial literacy. Furthermore, financial expertise can serve as a bridge between Generation Z's investment decisions about stock investments in the capital market. Research findings can contribute to the scientific understanding of the Theory of Planned Behaviour by shedding light on the aspect of perceived behavioural control. Perceived behavioural control incorporates the notion of knowledge, as demonstrated by the financial literacy variable, which influences financial behaviour and has consequences for investment choices. The Generation Z in Malang City is anticipated to possess enhanced abilities in forecasting prevailing economic hazards, enabling them to make more informed investment choices. It is advisable for individuals to consistently seek information regarding commendable portfolios from fellow investors in order to enhance their investing decision-making.

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