

CHAPTER I

INTRODUCTION

1.1 Background

Family is the smallest unit or group in society. Family give an impact that quite big in someone mindset and behavior, because all of basic lessons and basic knowledge begins from the family. But the more mature peoples, the influence from outside like education and friends could make or change mindset and behavior. In Indonesia, family called “*keluarga*”. *Keluarga* or family in English comes from Sanskrit language that means an environment that consists of some people who still have blood relationship (<http://id.wikipedia.org/wiki/Keluarga>). The core family, usually consist of father, mother and their children. If the relationship between parents and children are good, so the parents could influence their children. For example influence their children when making a decision. With the education that parents have, they could impact their children’s decision. If the level of education of parents high, they could influence or affect their children’s decisions more than parents who have low level of education. Because if parents have high level of education, they have more knowledge, so they could give an advice or suggestion to their children, moreover if related with what their parents learned. But not all of family in Indonesia has good relationship with their children. Sometimes children not closed with their parent, but they closer with

their friends. As explained previously, the influence from outside like friends could make or change mindset and behavior.

The author interest with this topic and choose this topic to analyze because individuals who already had the knowledge about finance but still less risk tolerance, especially women. The author also wants to prove whether education could affect the decision to invest, and whether the parent's education could influence their children to make a decision. Individuals who already took the subject about finance, not all of them have a high risk tolerance. For example men usually more risk tolerance than women. Women usually more risk aversion. Explained by Binay K Adhikari and Virginia O'Leary (2011), women indeed take less risk and invested less of their wealth in risky assets than men. Women demonstrated more risk aversion than men because they considered themselves to be less knowledgeable about financial markets and to increase the abilities in the world of finance, women need to educate to be more confidence with their knowledge and decision (Binay K Adhikari and Virginia O'Leary, 2011).

Risk is related with return and investment. Each investment always has a risk. Investment is method and techniques for making appropriate decisions about what kinds of securities to own (for example bonds, stocks), which firms' securities to buy (Cornett, Adair, and Nofsinger, 2009). According to Charles P. Jones (2010), investment is commitment of funds to one or more assets that will be held over some future time period. In the simple words, investment is the activity to purchase the assets or invest the money, and will be provide the income or benefit in the future.

As mention before, investment always related with the risk. Risk is part of every human endeavor (Damodaran, 2008). In the other words, risk is a condition in which there is a possibility of an adverse deviation from a desired outcome that is expected or hope for. Whether the risk is high or low depend on each individual. Higher the risk means that higher the return.

According to Cornett, Adair, and Nofsinger (2009), risk and return is related. The low risk investment also provides a low return. Individuals who take on higher risk investments, the expectation is higher returns. According that statement, return is the gain or loss that individuals got after invest the money.

This research describe about the impact of family relationship, gender and financial knowledge on financial risk tolerance, especially in Atma Jaya University. According to Dalton and Dalton (2008) in Binay K Adhikari and Virginia O'Leary (2011), risk tolerance is the level of risk exposure with which an individual is comfortable; an estimate of the level of risk an investor is willing to accept in his or her investment portfolio. In Atma Jaya, students already had given the financial management subject in third semester, and the theories could use in the financial planning and investment processes. More understand about financial risk, usually more risk tolerance, means that the education that someone possess, determine or influence the decision to do the investment.

The family relationship maybe could impact on financial risk tolerance. The relationship between children and parents could influence on the attitude and behavior in financial management their children. In children and parents relationship, mothers are more likely than fathers to having discussions about job

prospects, paying for education, family financial matters, setting goals, and so forth. Fathers are more likely teach their children about the investments.

This research also analyze whether the gender could impact on the risk tolerance. Gender refers to the socially constructed roles, behaviors, activities, and attributes that given society considers appropriate for men and women (<http://www.who.int/gender/whatisgender/en/>). According to Binay K Adhikari and Virginia O'Leary (2011), women demonstrated more risk aversion than men because they considered themselves to be less knowledgeable about financial market. That analysis suggested that women are less confident with their capability and knowledge about financial markets. Another reason why women more risk aversion than men, according to Alexandra Bernasek and Stephanie Shwiff (2001), since women also experience more chronic health as they age, women more prepare with regularly saving behavior and low risk tolerance which means that getting old someone the women, their health or their condition getting weak and easier to get sick compared to men. Because of that, women are more concern with their financial and their more careful to manage their financial, including if do an investment.

College students who had some financial knowledge or already got the subject about financial management are found to be more risk tolerant. Knowledge has a significant impact on investment decision. For instance, individuals who have knowledge about finance usually more accurate and braver than individuals who lack of financial knowledge in determining how much should be invested. Individuals who have knowledge and strong understanding about finance and investment process, usually have a mature planning and more confidence to take

the risk. Not only more risk tolerant, individuals who have knowledge about finance, usually have healthy financial management. Financial management is managing an organization's financial resources so as to achieve its business objectives and maximize its value (<http://www.investopedia.com/terms/s/strategic-financial-management.asp>). Thus, to obtain healthy financial management, individuals have to understand and do the financial practice. Financial practices for example, write a shopping list before shop, compare the price before purchase, record the spending, save the money, and so forth. With financial practice, individuals will be more sensitive against their financial condition. Individuals who practice good financial management, tend to incur less debt and show better financial well-being (Chau, Wai-Lap, and Yin-Kwan, 2012).

1.2 Problem Statements

The problem of the research is the impact of family relationship, gender and financial knowledge on financial risk tolerance. The focus of the research is on the family relationships especially in parent-child relationship could impact on financial risk tolerance and the impact of gender and financial knowledge on financial risk tolerance.

Based on problem background above, the problem statement in this research are:

- a. Can the parents' education impact the financial risk tolerance of their children?
- b. Can the gender impact the financial risk tolerance?
- c. Can the children's knowledge impact the financial risk tolerance?
- d. Can the parents and children relationship impact the financial risk tolerance?

1.3 Research Scope

This research describe about the impact of family relationship, gender and financial knowledge on financial risk tolerance. The impact of family relationship (the relationship between parents and children) could impact the risk tolerance. The impact of financial knowledge on financial risk tolerance means that financial knowledge that already got, could affect the financial risk tolerance. And the impact of gender on financial risk tolerance means that the difference between women and men in taking decision and risk tolerance.

In order to avoid this research got complex and more focus, the respondents of the research are students at Atma Jaya University who already took financial management subject and their parents.

1.4 Objectives and Benefits of the Research

1.4.1 Objectives of the Research

This research is designed to understand the impact of family relationship, financial knowledge, and gender on financial risk tolerance on the primary data.

The objective of this research is to testify several thing, they are:

- a. The author would to analyze the impact of family relationship, between parents' education and child, could impact their children, on financial risk tolerance.
- b. The author would to analyze the impact of gender on financial risk tolerance. Means that who are more risk tolerant between men and women.
- c. The author would to analyze the financial knowledge could impact the financial risk tolerance.

1.4.2 Benefits of the Research

The benefits of the research are toward:

- a. For the author

This research is important to make a better understanding in the part of finance study, which focuses on risk tolerance and add the experience for the author in case of financial risk tolerance. The author would more

understand about the impact of family relationship, financial knowledge, and gender on financial risk tolerance.

b. For the students

This research is make students understand if their relations with their parent and their knowledge about finance could influence their decision to do the investment and more or less risk tolerance, and to provide broader knowledge of students and to increase their confident to take a risk and more risk tolerance.

c. For the parents

This research is made the parents understand the impact of propinquity between parents and children and whether their education could impact children's risk tolerance. The other benefit is to provide broader knowledge of parents and to increase their confident to take a risk and more risk tolerance.

d. For the readers

The author expects that this research is able to provide broader knowledge to the peoples who do the investment and can make peoples more risk tolerance and as a reference for readers to have better understanding about the impact of family relationship and financial knowledge on risk tolerance.

- e. For the other researchers

This research could be a reference for the other researchers in order to support their research, especially for the topics that related with the risk tolerance in family relationship, gender and financial knowledge.

1.5 Research Originality

This research is carried out from previous researchers that have been done before. This research is replication research based on the previous research entitled “The impact of family relationships and financial education on financial risk tolerance” by Kenneth Ryack which published in 2011 by Financial Services Review.

But in this research, the author modified the previous journal. Some research that related to this topic also used by author to broaden the sources and to deepen knowledge.

1.6 Research Report Outline

The writing of this book is divided into five chapters. They are:

Chapter I: Introduction

This chapter consists of introduction about the research that consists of research background, problem statements, scope of the research, the originality of writing, objective and benefits of the research, and research report outline.

Chapter II: Theoretical Background and Previous Research

This chapter consists of theoretical background that related to this research, previous research, operational definition, and hypothesis.

Chapter III: Research Methodology

This chapter consists of information about the sample used in this research, types of methodology, data and data gathering, measurement scale, and variable measurement, and method of analysis.

Chapter IV: Data Analysis

This chapter consists of the data analysis and explanation about the result obtained in this study.

Chapter V: Conclusion

The last chapter of this research consists of conclusion of this research, limitation of the research, and suggestion for further research.