

# THE MEDIATING ROLE OF FINANCIAL MANAGEMENT IN THE RELATIONSHIP BETWEEN FINANCIAL LITERACY, INCOME, LIFESTYLE, AND INVESTMENT DECISIONS

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## Abstract

This study investigates the mediating role of financial management in the relationship between financial literacy, income, lifestyle, and investment decisions. Drawing on financial literacy theory, personal financial management theory, and behavioral finance, the study develops and empirically tests a conceptual model using survey data collected from 155 employees of a professional organization. The findings indicate that financial literacy and income do not directly influence investment decisions; instead, both variables significantly affect financial management, which subsequently plays a decisive role in shaping investment decisions. Financial management is confirmed as a full mediator in the relationships between financial literacy and investment decisions, as well as between income and investment decisions. In contrast, lifestyle shows no significant direct or indirect effect on either financial management or investment decisions. These results suggest that financial knowledge and financial resources alone are insufficient to drive investment behavior unless supported by effective financial management practices. The study highlights the importance of strengthening financial management capabilities as a key mechanism for translating financial literacy and income into sound investment decisions and provides practical insights for financial education and organizational financial development programs.

**Keywords:** financial literacy, income, lifestyle, financial management, investment decision, PLS-SEM, Indonesia

**JEL Classification:** D31, G11, G41, G53

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## INTRODUCTION

Financial literacy plays a crucial role in improving the economic well-being of individuals and society, especially in an era where technological advancements have reshaped financial access and behavior. In Indonesia, the recent National Financial Literacy and Inclusion Survey (SNLIK)

2025, published by the Financial Services Authority (OJK), highlights that 66.46% of Indonesians, equivalent to approximately 184 million people, possess a basic understanding of financial concepts such as money management, financial planning, and the use of financial products (Otoritas Jasa Keuangan & Badan Pusat Statistik,

2025). Despite these advancements in financial literacy, significant gaps remain across various demographic groups, including age, education level, and geographic location. For instance, individuals between the ages of 18-50 years exhibit a higher level of financial literacy compared to those aged 15-17 and 51-79 years, with the 26-35 age group having the highest financial literacy index at 74.04%. These findings underscore the need for more targeted financial literacy programs that address the varying needs of different age groups (Fadjar et al., 2023). While financial literacy lays the foundation for effective financial management, it is not sufficient on its own to ensure sound financial decision-making. A deeper understanding of long-term financial management, including investment strategies, is essential for individuals to make informed choices about their financial futures. Investment is viewed as one of the primary ways individuals can plan for future goals such as education, homeownership, and retirement (Baptista, 2021).

However, despite the growing awareness of basic money management, many individuals still struggle to effectively utilize available investment products. Factors such as limited access to advanced financial products, insufficient knowledge of effective investment strategies, and the influence of a consumer-driven lifestyle, especially among younger generations, contribute to this gap in investment behavior. The rise of consumerism, fueled by social media and easy access to credit, has further exacerbated the challenge of financial management.

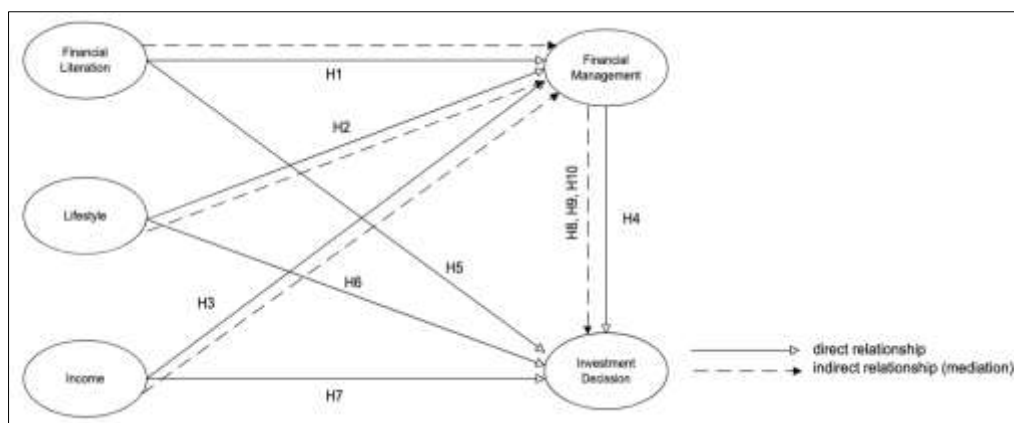
In addition to the challenges of financial literacy and income, lifestyle choices play a pivotal role in shaping financial decisions. Lifestyle, encompassing behaviors, preferences, and daily habits such as consumption patterns, spending, and financial decisions, significantly influences how individuals allocate their financial resources (Gignac &

Stevens, 2024). In the context of micro, small, and medium-sized enterprises (MSMEs), an uncontrolled consumer lifestyle can affect how entrepreneurs manage business income, often leading to personal expenses being prioritized over business development (Frisancho et al., 2023; Murugiah et al., 2023). Thus, lifestyle becomes a critical variable to consider when examining the relationship between financial literacy, financial attitudes, and financial behavior among MSME actors (Marhadi et al., 2024).

The relationship between financial literacy, income, lifestyle, and investment decisions is complex and multifaceted. Although higher financial literacy and income are generally associated with better investment decisions, the mediating role of financial management remains under-explored. Financial management serves as a crucial mediator in translating financial knowledge and income into sound investment choices. Understanding how lifestyle influences financial management and investment decisions is essential for developing more effective financial education programs and policies aimed at improving investment behavior across different demographic groups. This study aims to fill this gap in the literature by investigating the impact of financial literacy, income, and lifestyle on investment decisions, with financial management as the mediating variable.

## LITERATURE REVIEW

This study proposes a conceptual framework based on financial literacy theory, personal financial management theory, and behavioral finance, supported by empirical evidence from studies published over the past decade. The framework illustrates the relationships among financial literacy, lifestyle, and income as independent variables, financial management as a mediating variable, and investment decision as the dependent variable ([Figure 1](#)).



**Figure 1. Conceptual Framework**

**Investment Decisions**

Investment refers to the allocation of capital into various instruments or assets with the expectation of generating future returns (Faidah, 2019). Common instruments include stocks, bonds, mutual funds, and property, each characterized by different levels of risk and return. Investment decision-making is therefore a key component of personal financial planning, as it determines how individuals allocate resources to achieve long-term financial goals. Investment decisions are influenced not only by rational assessments of risk and return but also by behavioral and cognitive factors. (Jia, 2023) identify financial literacy, income, and financial goals as important determinants of investment decisions. However, these factors often influence decisions indirectly through individuals’ motivation and readiness to invest. In this context, investment interest acts as a mediating variable that links financial literacy to investment decisions. Investment interest reflects an individual’s willingness and inclination to engage in investment activities, which develops as financial knowledge and confidence increase. Individuals with higher financial literacy tend to exhibit stronger investment interest, as they better understand financial markets and investment instruments, leading to greater motivation to invest. Behavioral perspectives further suggest that investment interest channels the effects of psychological factors on investment decisions.

Argue that behavioral biases shape risk perception and motivation, which in turn influence investment interest and subsequent investment behavior. (Almansour et al., 2023) Empirical evidence supports this mechanism, showing that higher financial literacy enhances investment interest, ultimately leading to more rational and informed investment decisions (Fadjar et al., 2023; Paramita et al., 2020). Overall, investment interest plays a crucial mediating role in explaining how financial literacy translates into investment decisions. By strengthening individuals’ motivation to invest, investment interest enables financial knowledge to be transformed into actual investment behavior.

**Financial Literacy and investment Decisions**

Financial literacy has been widely recognized as an important determinant of individual investment decisions (Muhammad & Faradisi, 2023). Individuals with a higher level of financial literacy tend to possess a better ability to assess investment alternatives, understand risk characteristics, and select financial instruments that are consistent with their risk preferences. This understanding allows investors to make more informed judgments regarding portfolio diversification and risk management strategies. Prior studies further indicate that financial literacy contributes to more responsible financial behavior, which is closely related

to investment decision-making. Individuals with stronger financial knowledge are more likely to demonstrate prudent financial practices, such as effective budgeting, disciplined debt management, and thoughtful investment planning, as they rely on a deeper comprehension of financial information and investment instruments (Jamal et al., 2023)

However, the relationship between financial literacy and investment decisions is not always direct. Emerging evidence suggests that financial literacy may first influence individuals' attitudes and motivation toward investing before translating into actual investment decisions. (Bai, 2023) argues that financial literacy primarily affects investment decisions through behavioral channels, where improved financial understanding enhances individuals' interest and willingness to engage in investment activities. This increased interest subsequently leads to more rational and deliberate investment choices.

From this perspective, investment interest plays a crucial mediating role in explaining how financial literacy influences investment decisions. Financial literacy enhances individuals' confidence and awareness of investment opportunities, which strengthens their interest in participating in financial markets. As investment interest increases, individuals become more inclined to seek information, evaluate risks, and ultimately commit resources to investment activities in a more systematic manner (Bai, 2023).

Overall, existing empirical studies suggest that financial literacy contributes to investment decision-making both directly and indirectly by fostering stronger investment interest. While prior research has predominantly emphasized the direct role of financial literacy, relatively limited attention has been given to the psychological mechanisms underlying this relationship. Therefore, further investigation is needed to examine investment interest as a mediating variable that

explains how financial literacy is translated into actual investment decisions.

**Hypothesis 1:** Financial literacy positively influences investment decision-making.

**Hypothesis 2:** Investment interest mediates the relationship between financial literacy and investment decision-making.

### **Income and investment interest**

Income is widely recognized as an important factor influencing individuals' capacity and willingness to engage in investment activities. Higher income provides greater financial security, allowing individuals to meet their basic needs while allocating surplus funds for potential investment purposes. This financial stability often encourages individuals to develop a stronger interest in investment, as they perceive lower financial constraints and greater opportunities to grow their wealth (Muhammad & Faradisi, 2023).

Previous studies suggest that individuals with higher income levels tend to exhibit stronger investment interest due to increased confidence and perceived financial readiness. Financial security derived from higher income reduces concerns related to short-term consumption needs, enabling individuals to focus on long-term financial goals and explore various investment opportunities. As a result, higher income facilitates greater curiosity, motivation, and intention to participate in investment activities (Kristina et al., 2022; Shintawati & Budidarma, 2023).

However, income alone does not automatically lead to sound investment decisions. Several studies emphasize that income primarily enhances individuals' interest and readiness to invest, which must then be supported by appropriate financial knowledge and behavior. Without sufficient financial literacy and disciplined financial behavior, individuals with higher income may still hesitate to invest or make suboptimal investment choices (Silfiani & Senastri Dahlan, 2023).

Investment interest therefore plays a crucial mediating role in the relationship between income and investment decision-making. As investment interest increases, individuals are more likely to seek information, assess risks, and evaluate investment alternatives more carefully before committing their resources. This heightened engagement ultimately translates income advantages into more deliberate and rational investment decisions (Pahlevi et al., 2023; Wardani & Widajatun, 2025)

Overall, the literature indicates that income positively influences investment decisions primarily through its effect on investment interest. By strengthening financial security and motivation to invest, income fosters greater investment interest, which subsequently encourages more informed and intentional investment decision-making. Accordingly, examining investment interest as a mediating variable is essential to understanding how income shapes investment behavior.

**Hypothesis 3:** Income positively influences investment interest.

**Hypothesis 4:** Investment interest mediates the relationship between income and investment decision-making.

### **Lifestyle and Investment Decision**

Lifestyle choices significantly influence investment decisions, particularly among younger generations such as Generation Z and millennials. Research indicates that lifestyle factors, including consumption patterns and financial behaviors, play a crucial role in shaping individuals' investment preferences and behaviors. A study by Saptyana (2024) examined the impact of lifestyle, financial technology, financial literacy, and financial behavior on investment decisions among Generation Z students in Semarang. The findings revealed that lifestyle, financial technology, and financial behavior positively and significantly influenced investment decisions, while financial

literacy did not have a significant effect. This suggests that lifestyle choices, encompassing spending habits and the use of online financial services, directly affect investment decisions in this demographic.

Furthermore, a study by (Sampoerno & Haryono, 2021) explored the effects of financial literacy, income, hedonistic lifestyle, self-control, and risk tolerance on financial management behavior among millennials in Surabaya. The results indicated that a hedonistic lifestyle and self-control significantly influenced financial management behavior, underscoring the importance of lifestyle in financial decision-making.

These studies collectively highlight that lifestyle factors, encompassing spending habits, financial behaviors, and lifestyle choices, significantly influence investment decisions. Individuals with a lifestyle that promotes financial discipline and prudent spending are more likely to make informed and rational investment choices. Conversely, lifestyles characterized by excessive consumption and lack of financial discipline may lead to impulsive and less informed investment decisions.

**Hypothesis 5:** Lifestyle positively influences investment decision-making.

### **Financial Literacy and Financial Management**

Financial literacy plays a crucial role in effective financial management, where individuals with higher levels of financial literacy tend to be more skilled at budgeting, managing expenses, avoiding consumer debt, and consistently saving. Research by Jamal et al. (2023), Khoirunnisa & Rochmawati (2021), and Khoirunnisaa & Johan (2020) suggests that adequate financial literacy significantly enhances an individual's ability to manage finances optimally. These findings are consistent with Baptista (2021) who found that good financial literacy improves financial management at the household and small business levels, as well as Paramita

et al. (2020) who demonstrated that increased financial literacy directly correlates with improved financial management at both individual and small business levels. This perspective aligns with Lusardi & Mitchell(2023) who assert that financial literacy includes basic knowledge of wise money management and the ability to make rational financial decisions, thus reinforcing the importance of financial literacy in personal finance management.

Empirical findings from previous studies also confirm the positive relationship between financial literacy and financial management. Research by Khoirunnisaa & Johan (2020) shows that financial literacy significantly influences financial management behavior, with a path coefficient value of 0.402 and a p-value of 0.001. A similar result was found by Jamal et al. (2023), reporting a coefficient of 0.615 with a p-value of 0.000, further emphasizing that financial literacy significantly contributes to an individual's financial management ability. Additionally, Paramita et al. (2020) also found a significant effect of financial literacy on financial management, with an effect size of 0.487 and a p-value of 0.002 at the 95% significance level. These findings consistently demonstrate that financial literacy is a key factor in improving an individual's and small business's financial management skills.

However, most of these studies are limited to household or small business contexts, while studies exploring the impact of financial literacy on financial management in professional contexts, particularly in Indonesia, remain relatively scarce (Fadjar et al., 2023; Wardani & Widajatun, 2025). Furthermore, studies examining the role of demographic factors such as age, education level, and income as mediators in the relationship between financial literacy and financial management in a professional context are also rare.

Based on these findings, the research by Fadjar et al. (2023) focuses on financial literacy as the sole independent variable influencing investment decisions among millennials, without considering mediating variables. This study aims to fill this gap by integrating financial literacy, education level, and income as factors influencing investment decisions, with financial management as a mediating variable. This approach not only broadens the scope of the variables studied but also offers a new perspective by positioning financial management as a mediating mechanism that connects demographic factors and financial literacy with investment decisions. Therefore, this research is expected to provide empirical contributions that enrich the literature on the relationship between financial literacy, demographic factors, and financial management behavior in the professional context in Indonesia.

**Hypothesis 4:** Financial literacy positively influences financial management behavior.

### **Income and Financial Management**

Income has a direct impact on an individual's ability to manage their finances. Research by Devi et al. (2021) and Paramita et al. (2020) shows that higher income provides more flexibility to manage expenses, save, and invest. Individuals with higher incomes have more resources to plan their finances, meet living expenses without relying on debt, and even increase long-term investments for the future. Furthermore, research by Laras Asih & Andrianingsih (2023) indicates that higher income provides individuals or families with more options in planning their expenditures. They can allocate funds for education, healthcare, and other needs without worrying about the inability to meet basic needs. However, higher income does not always equate to better financial management, as habits and discipline in managing money also significantly affect the outcomes.

Research by Wardani & Widajatun (2025) further emphasizes that income not only directly influences financial management ability but can also impact financial behavior through improved financial literacy. In other words, higher income can provide access to broader financial information, education, and experiences, which in turn encourages more rational and strategic financial decision-making. Empirical findings from previous studies also support this positive relationship. Devi et al. (2021) found that income significantly affects financial management, with a coefficient value of 0.365 and a p-value of 0.005. A similar result was found in the study by Paramita et al. (2020), which reported that income influences financial management with a coefficient value of 0.432 and a p-value of 0.002, indicating significance at the 95% confidence level. Additionally, the research by Laras Asih & Andrianingsih (2023) showed a coefficient value of 0.398 with a p-value of 0.003, indicating a positive impact of income on financial management within families. Overall, these studies consistently show that income plays an essential role in helping individuals and families manage their finances more effectively.

However, despite the importance of income, it is important to note that other factors, such as poor financial management habits, can hinder the effective use of income. Without saving habits and prudent management, individuals with high incomes can still fall into financial difficulties. Further research is needed to explore how income can be optimally utilized in financial management, particularly considering other factors such as social influences, habits, and emotional management.

**Hypothesis 5:** Income positively influences financial management behavior.

### **Lifestyle and financial management**

Lifestyle plays a significant role in shaping financial management behavior.

The way individuals manage their money, allocate their resources, and make financial decisions is often influenced by their lifestyle choices, which include their consumption habits, spending patterns, and attitudes towards saving and investing. Financial management behavior is not only about managing income and expenses but also involves making rational decisions about budgeting, saving, and investing to ensure long-term financial well-being.

Research by Hidayat et al. (2023) emphasizes the significant role of lifestyle in shaping an individual's financial management practices. The study found that individuals with a lifestyle that prioritizes savings, frugality, and financial planning tend to have better financial management practices. They are more likely to stick to budgets, save consistently, and avoid unnecessary debt. On the other hand, individuals with a lifestyle characterized by high consumption and short-term gratification may struggle with financial management, leading to poor saving habits and a reliance on credit.

Furthermore, research by Sari (2021) highlights that lifestyle is closely linked to financial behavior, with those who have a more organized and disciplined lifestyle being better at managing their finances. This study suggests that a lifestyle that emphasizes financial education and self-control positively influences financial management behavior, enabling individuals to plan for future financial goals such as buying a home, retirement, or investing in the stock market. Conversely, those with a more impulsive lifestyle may find it harder to manage their finances, as they are more likely to make spontaneous financial decisions without fully understanding the consequences.

The relationship between lifestyle and financial management behavior has been consistently supported by empirical studies. Hidayat et al. (2023) reported that lifestyle significantly affects financial management behavior, with disciplined and organized lifestyles leading to better

financial outcomes. Similarly, Sari (2021) found that financial management behaviors such as budgeting, saving, and investing were strongly influenced by lifestyle choices.

**Hypothesis 6:** Lifestyle significantly influences financial management behavior.

### **Financial management and investment interest**

Good financial management plays an essential role in making wise investment decisions. Research by (Muhammad & Faradisi, 2023) shows that individuals with good financial management habits tend to make more rational investment decisions. They are better able to choose investment instruments that align with their financial goals and manage risks more wisely. With sound financial management, individuals are also more prepared to allocate funds for investments that can generate long-term returns.

Research by Shintawati & Budidarma (2023) and Silfiani & Senastri Dahlan (2023) also highlights the importance of financial management behavior in influencing investment decisions. Individuals with good financial behavior are more active in investing, as they understand how to manage money and risks better. Their investment decisions are not only based on short-term gains but also consider long-term financial stability.

Empirical findings from previous studies support this positive relationship. Muhammad & Faradisi (2023) found that financial management has a significant effect on investment decision-making, with a coefficient value of 0.453 and a p-value of 0.001. A similar result was found by Shintawati & Budidarma (2023) who reported a coefficient value of 0.478 with a p-value of 0.000, indicating a significant positive relationship between financial management and investment decisions. Additionally, Silfiani & Senastri Dahlan (2023) recorded a coefficient value of 0.425 with a p-value of 0.002, suggesting that good financial management

encourages individuals to make more accurate investment decisions. Overall, these studies consistently show that financial management is an essential factor in helping individuals plan and make wiser investment decisions.

However, despite the importance of good financial management, many individuals still struggle with making appropriate investment decisions, even when they have good financial management habits. External factors such as economic uncertainty or limited information can affect their investment decisions. Therefore, in addition to good financial management, individuals also need sufficient knowledge of the market and investment instruments. Although financial management can influence investment decisions, further research is needed to understand how financial management can be optimized in the context of more complex investment decision-making and in fluctuating market conditions.

**Hypothesis 7:** Financial management positively influences investment decision-making.

### **Financial Management Mediates the Relationship between Financial Literacy and Investment Decisions**

Good financial management can act as a strong mediator in the relationship between financial literacy and investment decisions. Financial literacy provides individuals with the fundamental knowledge and skills to manage their money wisely; however, effective financial management is the next crucial step in applying that knowledge to real-life situations. Research by Bai (2023) revealed that financial literacy positively contributes to improving financial management behavior, which in turn promotes more prudent investment decision-making. Financial literacy not only offers individuals a theoretical understanding of investment but also strengthens the financial management

behaviors necessary for making rational investment choices.

Similarly, Shintawati & Budidarma (2023) demonstrated that financial management behavior mediates the relationship between financial literacy and investment decisions. Individuals with good financial understanding tend to manage their budgets and savings more effectively, providing them with a solid foundation for making wise investment choices. In other words, while financial literacy provides insight into how to select the right investment instruments, good financial management ensures that individuals can utilize available resources to invest successfully.

However, although financial management can serve as an effective mediator, not all individuals with high financial literacy will always make sound investment decisions. External factors such as market uncertainty or lack of knowledge about investment instruments may also affect their decisions. Therefore, enhancing financial literacy should be accompanied by practical training in financial management to achieve optimal investment outcomes.

Further research is needed to explore how financial management can systematically mediate the relationship between financial literacy and investment decisions, particularly in fluctuating market conditions and during periods of economic uncertainty.

**Hypothesis 8:** Financial management mediates the relationship between financial literacy and investment decisions.

### **Financial Management Mediates the Relationship between Income and Investment Decisions**

Higher income is often associated with a greater ability to invest, but prudent financial management is the factor that mediates this relationship. Research by (Fitrianty, 2023; Silfiani & Senastri Dahlan, 2023) shows that although income plays a key role in providing funds for

investment, good financial management is crucial to ensure that these funds are used efficiently. Disciplined financial management allows individuals with higher incomes to save, allocate funds for long-term investment goals, and better manage risks.

In this context, financial management acts as a bridge between income and investment decisions. Higher income provides more resources, but without prudent financial management, individuals may not be able to fully capitalize on their income for investment purposes. For example, individuals with high incomes who lack regular financial management may not have sufficient savings for investment or may allocate their funds to unproductive areas.

Moreover, good financial management helps individuals plan their investment allocations more strategically, reduces reliance on debt, and enhances long-term financial security. Therefore, effective financial management is not only essential to maximizing higher income but also to ensuring that the investment decisions made have a positive impact on long-term financial well-being.

Although financial management has been shown to mediate the relationship between income and investment decisions, further research is needed to explore how financial management habits develop across different income groups and how they influence investment decisions under varying economic conditions.

**Hypothesis 9:** Financial management mediates the relationship between income and investment decisions.

### **Financial Management Mediates the Influence of Lifestyle on Investment Decisions**

Lifestyle choices significantly influence investment decisions, and financial management plays a critical mediating role in this relationship. Research by Anisa Salsabila Kemala Fikri & Nahda (2023)

and Murugiah et al. (2023) shows that an individual's lifestyle, characterized by consumption habits and spending behaviors, can impact their financial well-being. While lifestyle determines how individuals allocate their resources, it is financial management that ensures the resources are utilized in ways that allow for long-term investments.

In this context, financial management acts as a connector between lifestyle and investment decisions. A consumer-driven lifestyle, often focused on immediate gratification and spending, may lead individuals to spend more on non-essential goods rather than invest for the future. However, effective financial management practices, such as budgeting, saving, and prioritizing long-term financial goals, can help individuals overcome these impulses and redirect their resources into productive investments.

Good financial management allows individuals to better align their lifestyle choices with their financial goals, thereby facilitating the shift from short-term consumption to long-term wealth accumulation. This behavior is crucial for making sound investment decisions that provide financial security in the future. For example, individuals who prioritize saving and budgeting may be more likely to invest in stocks, bonds, or real estate, as their financial management practices allow them to commit funds to these investments consistently.

However, while lifestyle habits strongly influence financial decisions, the mediating role of financial management is essential. Even individuals with a consumer-driven lifestyle can make rational investment decisions if they have strong financial management practices in place. Thus, the ability to make wise investment choices is not solely dependent on lifestyle but also on the ability to manage finances effectively.

Further research is necessary to explore how financial management can mediate the relationship between lifestyle

and investment decisions, especially in different demographic groups and varying economic contexts. Understanding the role of financial management in this dynamic will help develop better strategies for financial education and investment behavior modification.

**Hypothesis 10:** Financial management mediates the relationship between lifestyle and investment decisions.

## RESEARCH METHODS

This study uses an applied quantitative design to test the influence of financial literacy, education level, and income on investment decisions with financial management as a mediating variable. This approach was chosen so that the results of the research provide practical solutions while strengthening the foundation of financial behavior theory in the context of SCCIC organizations.

The object of the research is all 155 SCCIC employees by February 2025. The sampling technique uses saturated sampling (census sampling). Data was collected through a structured questionnaire with a 5-point Likert scale to measure perceptions and behaviors related to variables. The main variables consist of independent variables: financial literacy, education level, income, mediation variable: financial management and bound variable: investment decision. The indicators of each variable were adapted from the literature and measured by ordinal scale ([Table 1](#)).

SmartPLS was employed to conduct data analysis using Partial Least Squares Structural Equation Modeling (PLS-SEM). This approach was selected due to its capacity to evaluate intricate models that incorporate mediation variables without necessitating data normality. The analysis stage encompasses the assessment of measurement models for reliability and validity, as well as the examination of structural models for relationships between variables.

**Table 1.** Definition of Research Variables

<b>Variabel</b>	<b>Konsep</b>	<b>Indikator</b>
Financial Literacy	Ability to understand and use financial information for making appropriate decisions (Bai, 2023)	Basic knowledge, personal financial management, investment and risk, views, and understanding of financial products.
Income	Total income and allocation for investment (Pahlevi et al., 2023)	Amount of income, income stability, allocation of income for investment.
Lifestyle	Lifestyle includes various elements such as eating habits, physical activities, social interactions, and spending habits (Widjayanti et al., 2025)	Spending patterns, shopping habits, expenditure priorities, saving habits.
Financial Management	Steps to manage personal finances (Pahlevi et al., 2023)	Saving habits, financial planning, cost control, as well as debt and investment management.
Investment Decision	The process of selecting and placing funds in investment instruments (Bai, 2023)	Involvement in investment, investment planning, investment decision-making, and investment assessment.

The instrument's validity was evaluated using the following criteria: a loading factor of at least 0.70, an average value of truth (AVE) of at least 0.50, discriminant validity with Fornell-Larcker, cross-loading, and an HTMT of less than 0.85. Reliability was assessed using Cronbach's Alpha  $\geq 0.70$  and Composite Reliability. The hypothesis was evaluated using bootstrapping with a significance level of 5% ( $t \geq 1.96$ ;  $p \leq 0.05$ ). The bootstrap 5,000 resampling method was employed to analyze mediation with specific indirect effects. The mediation effect was considered significant when  $p < 0.05$  and  $t > 1.96$ . Goodness of Fit (GOF) is determined by the root of the multiplication of AVE and  $R^2$ , with the following interpretations: a good fit is defined as a value of 0.36 or higher, a moderate fit as 0.25–0.36, and a poor fit as a value of less than 0.25 (Hair et al., 2021).

## RESULT AND DISCUSSION

In this study, all employees of the Smart City & Community Innovation Center (SCCIC) were used as respondents, totaling 155 individuals. The distribution

of respondents is categorized based on various demographic factors as shown in the [Table 2](#). This profile provides a comprehensive overview of the respondents' background.

Convergent validity was assessed by examining the outer loadings of each indicator on its respective construct. Following Hair et al. (2021), an indicator is considered reliable if its loading exceeds 0.70, although values between 0.40 and 0.69 may still be acceptable in exploratory studies. The results in [Table 3](#) indicate that all indicators in this study surpassed the recommended threshold. Specifically, lifestyle indicators ranged from 0.709 to 0.835, investment decision indicators from 0.805 to 0.954, financial literacy indicators from 0.764 to 0.972, income indicators from 0.840 to 0.901, and financial management indicators from 0.790 to 0.934. These findings confirm that all constructs achieved adequate convergent validity, demonstrating that the measurement model is robust and appropriate for further analysis.

**Table 2.** Data Demography

<b>Demographic</b>	<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
Gender	Male	83	53.55%
	Female	72	46.45%
Age	Under 25 years	5	3.2%
	25-35 years	57	36.8%
	36-45 years	60	38.7%
	Above 45 years	33	21.3%
Education Level	High School (SMA)	4	2.6%
	Diploma (D3)	23	14.8%
	Bachelor's Degree (S1)	53	34.2%
	Master's Degree (S2)	63	40.6%
	Doctorate (S3)	12	7.7%
Income	Under 3 million	2	0.6%
	3-5 million	20	12.9%
	5-10 million	59	38.1%
	10-20 million	53	34.2%
	Above 20 million	21	13.5%
Job Position	Management	52	33.5%
	Internal Research Lecturer	20	12.9%
	Research Assistants/Experts	40	25.8%
	Other Support Experts/Startups	43	27.7%

**Table 3.** Convergent Validity Test Results (Loading Factor)

	<b>Lifestyle</b>	<b>Investment decision</b>	<b>Financial literacy</b>	<b>Income</b>	<b>Financial management</b>
Financial Behavior.1					0.822
Financial Behavior.2					0.853
Financial Behavior.3					0.790
Financial Behavior.4					0.934
Financial Behavior.5					0.913
Icome.1				0.840	
Icome.2				0.901	
Icome.3				0.885	
Icome.4				0.853	
Icome.5				0.855	

**Table 3.** Continue

<b>Lifestyle</b>	<b>Investment decision</b>	<b>Financial literacy</b>	<b>Income</b>	<b>Financial management</b>
Investasi.1			0.954	
Investasi.2			0.952	
Investasi.3			0.918	
Investasi.4			0.836	
Investasi.5			0.805	
LT.1				0.972
LT.2				0.764
LT.3				0.922
LT.4				0.933
LT.5				0.949
life style.1		0.709		
life style.2		0.796		
life style.3		0.766		
life style.4		0.835		
life style.5		0.808		

Discriminant validity was assessed using the cross-loading criterion. As suggested by Hair et al. (2021), an indicator should load higher on its assigned construct than on any other construct. The results in [Table 4](#) demonstrate that all indicators met this requirement. For example, investment decision indicators showed the highest loadings on the investment decision construct (0.805–0.954), while income indicators loaded

highest on income (0.840–0.901), and financial literacy indicators on financial literacy (0.764–0.972). Similarly, lifestyle and financial management indicators also loaded highest on their respective constructs. These results confirm that all constructs in the model achieved adequate discriminant validity, indicating that they are empirically distinct and can be used for further structural model analysis.

**Tabel 4.** Results of Discriminatory Validity Test (Cross Loading)

	<b>Lifestyle</b>	<b>Investment decision</b>	<b>Financial literation</b>	<b>Income</b>	<b>Financial management</b>
Financial Behavior.1	0.502	0.745	0.551	0.530	0.822
Financial Behavior.2	0.566	0.788	0.547	0.597	0.853
Financial Behavior.3	0.529	0.769	0.523	0.637	0.790
Financial Behavior.4	0.623	0.951	0.666	0.666	0.934
Financial Behavior.5	0.599	0.873	0.660	0.666	0.913

**Tabel 4.** Continue

<b>Lifestyle</b>	<b>Investment decision</b>	<b>Financial literation</b>	<b>Income</b>	<b>Financial management</b>	
Icome.1	0.731	0.595	0.498	0.840	0.608
Icome.2	0.774	0.711	0.636	0.901	0.712
Icome.3	0.751	0.582	0.575	0.885	0.599
Icome.4	0.742	0.571	0.493	0.853	0.563
Icome.5	0.723	0.650	0.577	0.855	0.618
Investasi.1	0.627	0.954	0.668	0.662	0.922
Investasi.2	0.615	0.952	0.652	0.648	0.904
Investasi.3	0.615	0.918	0.624	0.650	0.915
Investasi.4	0.565	0.836	0.544	0.655	0.830
Investasi.5	0.524	0.805	0.567	0.620	0.700
Financial Literacy.1	0.638	0.654	0.972	0.618	0.664
Financial Literacy.2	0.562	0.587	0.764	0.567	0.578
Financial Literacy.3	0.578	0.605	0.922	0.577	0.610
Financial Literacy.4	0.601	0.620	0.933	0.552	0.609
Financial Literacy.5	0.619	0.642	0.949	0.617	0.656
life style.1	0.709	0.499	0.432	0.750	0.503
life style.2	0.796	0.615	0.580	0.789	0.612
life style.3	0.766	0.439	0.465	0.620	0.438
life style.4	0.835	0.504	0.538	0.613	0.493
life style.5	0.808	0.495	0.550	0.556	0.487

The effect size ( $f^2$ ) analysis was conducted to evaluate the contribution of each exogenous variable to the endogenous constructs. Following the guidelines of Hair et al. (2021), values of 0.02, 0.15, and 0.35 are considered small, medium, and large effects, respectively. The results in [Table 5](#) indicate that lifestyle had a negligible effect on both investment decisions ( $f^2 = 0.001$ ) and financial management ( $f^2 = 0.000$ ). Financial literacy showed a small effect on investment decisions ( $f^2 = 0.005$ ) but a medium effect

on financial management ( $f^2 = 0.199$ ). Income also exerted a small effect on investment decisions ( $f^2 = 0.006$ ) and an effect approaching medium on financial management ( $f^2 = 0.147$ ). Notably, financial management demonstrated a very large effect on investment decisions ( $f^2 = 4.210$ ), highlighting its central role as a mediating construct in the model. These findings suggest that financial management substantially enhances the influence of income and financial literacy on investment decision-making.

**Table 5.** Effect Size Test Results (f-Square)

	<b>Investment Decisions</b>	<b>Financial Behavior</b>
Lifestyle	0.001	0.000
Investment Decisions		
Financial Literacy	0.005	0.199
Income	0.006	0.147
Financial Behavior	4.210	

The coefficient of determination ( $R^2$ ) was used to evaluate the explanatory power of the model. According to Hair et al. (2021),  $R^2$  values of 0.75, 0.50, and 0.25 can be described as substantial, moderate, and weak, respectively. The findings in [Table 6](#) and [Figure 2](#) show that the construct of investment decisions obtained an  $R^2$  value of 0.924 (adjusted  $R^2 = 0.923$ ), which indicates a substantial predictive power, as more than 92% of the variance in investment decisions is explained by the exogenous variables. Meanwhile, financial management achieved an  $R^2$  value of 0.602 (adjusted  $R^2 = 0.600$ ), reflecting a moderate explanatory power, as approximately 60% of its variance is accounted for by lifestyle, financial literacy, and income.

In line with Hair et al. (2021), these results confirm that the model demonstrates strong predictive capability, particularly highlighting the central role of financial management as a mediator in explaining investment decisions.

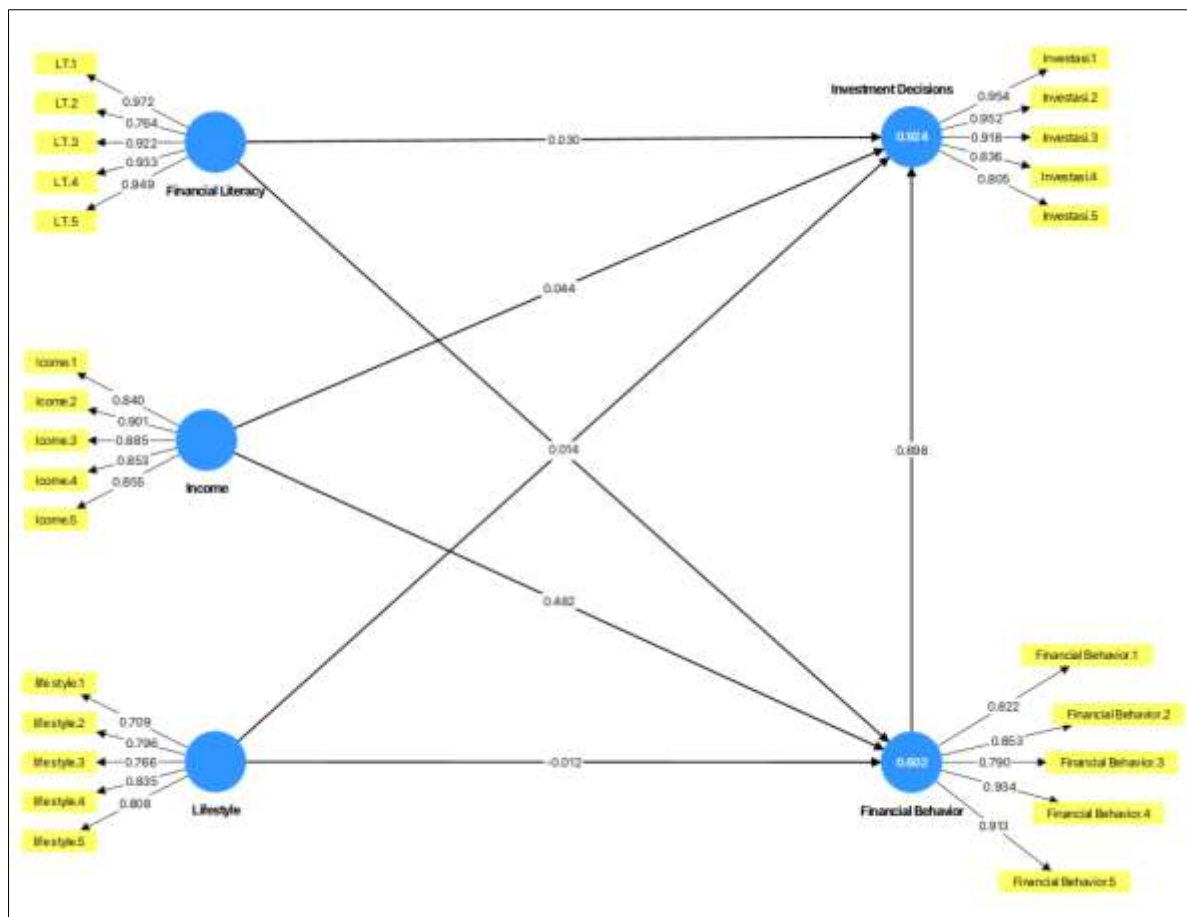
The reliability of the measurement model was evaluated using Cronbach's Alpha, Composite Reliability (CR), and Average Variance Extracted (AVE). According to Hair et al. (2021), Cronbach's Alpha and CR values above 0.70 indicate satisfactory reliability, while an AVE value above 0.50 confirms convergent validity. The results in [Table 7](#) demonstrate that all constructs met these criteria. Lifestyle achieved  $\alpha = 0.843$ , CR = 0.888, and AVE = 0.615; investment decision  $\alpha = 0.937$ , CR = 0.953, and AVE = 0.801; financial literacy  $\alpha = 0.947$ , CR = 0.960, and AVE = 0.830; income  $\alpha = 0.917$ , CR = 0.938, and AVE = 0.752; and financial management  $\alpha = 0.914$ , CR = 0.936, and AVE = 0.746. These results confirm that all constructs exhibit strong internal consistency and convergent validity, indicating that the measurement model is both reliable and valid for further structural analysis.

**Table 6.** Coefficient of Determination (R-Square)

	<b>R-square</b>	<b>R-square adjusted</b>
<b>Investment Decisions</b>	0.924	0.923
<b>Financial Behavior</b>	0.602	0.600

**Table 7.** Instrument Reliability Test Results

	<b>Cronbach's alpha</b>	<b>Composite reliability (rho_a)</b>	<b>Composite reliability (rho_c)</b>	<b>Average variance extracted (AVE)</b>
<b>Lifestyle</b>	0.843	0.849	0.888	0.615
<b>Investment Decisions</b>	0.937	0.945	0.953	0.801
<b>Financial Literacy</b>	0.947	0.950	0.960	0.830
<b>Income</b>	0.917	0.922	0.938	0.752
<b>Financial Behavior</b>	0.914	0.922	0.936	0.746



**Figure 2.** SEM PLS Hypothesis test result model

The Goodness of Fit (GOF) index was employed to evaluate the overall model fit. Following the formula proposed by Hair et al. (2021), the GOF value is calculated as the square root of the product of the average variance extracted (AVE) and the average  $R^2$ . The results in [Table 8](#) indicated an average AVE of 0.749 and an

average  $R^2$  of 0.763, yielding a GOF value of 0.571. Since this value exceeds the threshold of 0.36, the model demonstrates a large goodness of fit, confirming that the research model has a strong explanatory power and is suitable for further hypothesis testing.

**Table 8.** Goodness of Fit (GOF) Test Results

	Average variance extracted (AVE)	R-Square
<b>Lifestyle</b>	0.615	
<b>Financial Literacy</b>	0.830	
<b>Income</b>	0.752	
<b>Investment Decisions</b>	0.801	0.924
<b>Financial Behavior</b>	0.746	0.602
<b>Average</b>	0.749	0,763

$$\text{Nilai GOF} = \sqrt{\text{average AVE} \times \text{average R Square}} \dots\dots\dots (1)$$

$$\text{Nilai GOF} = 0,749 \times 0,763$$

$$\text{Nilai GOF} = 0,571$$

The model fit was assessed using the Standardized Root Mean Square Residual (SRMR) and the Normed Fit Index (NFI), following the PLS-SEM guidelines proposed (Hair et al., 2021). The SRMR value in [Table 9](#) of 0.073 is below the recommended threshold of 0.08, indicating a good model fit. Although the NFI value of 0.701 does not meet the conventional cutoff of 0.90, in PLS-SEM this index is considered supplementary rather than decisive. Therefore, the structural model is regarded as acceptable and suitable for hypothesis testing.

The PLS-SEM analysis result in [Table 10](#) reveals that lifestyle has no significant effect on investment decisions ( $\beta = 0.014$ ;  $T = 0.283$ ;  $P = 0.777$ ) nor on financial management ( $\beta = -0.012$ ;  $T = 0.104$ ;  $P = 0.917$ ). This indicates that variations in individual lifestyle do not directly determine investment decision-making or financial management capability.

Furthermore, financial literacy shows no significant effect on investment decisions ( $\beta = 0.030$ ;  $T = 1.082$ ;  $P = 0.279$ ). However, it has a positive and significant effect on financial management ( $\beta = 0.383$ ;  $T = 5.402$ ;  $P = 0.000$ ). This suggests that the higher the financial literacy level, the better individuals are at planning, controlling, and allocating their financial resources.

Similarly, income does not directly affect investment decisions ( $\beta = 0.044$ ;  $T = 0.806$ ;  $P = 0.420$ ), but it significantly influences financial management ( $\beta = 0.482$ ;  $T = 3.496$ ;  $P = 0.000$ ). This means that higher income levels are associated with better financial management practices.

Among all variables, financial management has the strongest effect on

investment decisions ( $\beta = 0.898$ ;  $T = 31.007$ ;  $P = 0.000$ ). Therefore, financial management is confirmed as the most critical predictor of investment decisions.

According to Hair et al. (2021), path coefficients are considered significant when  $T \geq 1.96$  and  $P \leq 0.05$ . The findings of this study confirm that financial management plays a crucial mediating role. Neither financial literacy nor income directly drive investment decisions, but both contribute indirectly through their influence on financial management. In other words, higher financial literacy and income enhance individuals' ability to manage their finances, which in turn leads to more optimal investment decisions.

The mediation test in [Table 11](#) shows that lifestyle does not significantly affect investment decisions through financial management ( $\beta = -0.011$ ;  $T = 0.104$ ;  $P = 0.917$ ). This implies that lifestyle does not play a meaningful role in influencing investment decisions either directly or indirectly.

In contrast, financial literacy exerts a significant indirect effect on investment decisions through financial management ( $\beta = 0.344$ ;  $T = 5.344$ ;  $P = 0.000$ ). This means that individuals with higher financial literacy tend to have better financial management practices, which subsequently enhance their investment decision-making.

Similarly, income also has a significant indirect effect on investment decisions through financial management ( $\beta = 0.433$ ;  $T = 3.513$ ;  $P = 0.000$ ). This indicates that individuals with higher income are more capable of managing their finances effectively, thereby improving their ability to make sound investment decisions.

Based on Hair et al. (2021), mediation is confirmed when the indirect effect

is statistically significant ( $T \geq 1.96$ ;  $P \leq 0.05$ ). The findings suggest that financial management functions as a key mediating variable between financial literacy, income, and investment decisions. While financial literacy and income do not directly influence investment decisions, their impact becomes significant through the channel of financial management.

These results underscore the importance of enhancing financial management capabilities, as it serves as the primary pathway through which financial resources and knowledge are transformed into effective investment behaviors.

**Tabel 9.** Model Fit Assessment

	<b>Saturated model</b>	<b>Estimated model</b>	<b>Notes</b>
<b>SRMR</b>	0.073	0.073	Good Model Fit
<b>NFI</b>	0.701	0.701	Moderate Model Fit

**Table 10.** Hypothesis Test Results (T-Statistics and P-Values)

	<b>Original sample (O)</b>	<b>T statistics ( O/STDEV )</b>	<b>P values</b>	<b>Notes</b>
<b>Lifestyle → Investment Decision</b>	0.014	0.283	0.777	Not significant
<b>Lifestyle → Financial Management</b>	-0.012	0.104	0.917	Not significant
<b>Financial Literacy → Investment Decision</b>	0.030	1.082	0.279	Not significant
<b>Financial Literacy → Financial Management</b>	0.383	5.402	0.000	Significant
<b>Income → Investment Decision</b>	0.044	0.806	0.420	Not significant
<b>Income → Financial Management</b>	0.482	3.496	0.000	Significant
<b>Financial Management → Investment</b>	0.898	31.007	0.000	Very significant

**Table 11.** Mediation results

	<b>Original sample (O)</b>	<b>T statistics ( O/STDEV )</b>	<b>P values</b>	<b>Notes</b>
<b>Lifestyle → Financial Management → Investment Decision</b>	-0.011	0.104	0.917	Not significant
<b>Financial Literacy → Financial Management → Investment Decision</b>	0.344	5.344	0.000	Significant
<b>Income → Financial Management → Investment Decision</b>	0.433	3.513	0.000	Significant

## **Discussion**

### **Financial Literacy and Investment Decisions: Comparison with Previous Studies**

The findings indicate that financial literacy does not have a significant direct effect on investment decisions, leading to the rejection of **Hypothesis 1**. This result contrasts with several previous studies that report a direct positive relationship between financial literacy and investment decisions, particularly among students and household populations. These studies generally argue that individuals with higher financial knowledge tend to make better investment choices.

However, the present finding is consistent with behavioral finance literature, which suggests that financial knowledge alone is insufficient to drive actual financial behavior. In line with (Bai, 2023) and (Lusardi & Mitchell, 2023), this study shows that financial literacy primarily influences investment decisions indirectly by improving financial management behavior. The difference between this study and earlier research may be explained by the professional context of the respondents, where educational attainment is relatively homogeneous and financial knowledge does not automatically translate into investment action.

### **Income, Financial Capacity, and Investment Decisions in Relation to Prior Research**

The results demonstrate that income does not directly influence investment decisions, which is in contrast to studies that find a direct income–investment relationship. Those studies often focus on populations with heterogeneous income levels, where income strongly determines access to investment opportunities.

Nevertheless, the present findings support prior studies showing that income significantly affects financial management behavior. Consistent with (Devi et al., 2021) and (Paramita et al., 2020), this study confirms that higher income

enhances individuals' ability to plan, save, and allocate financial resources effectively. The mediation analysis further aligns with previous research suggesting that income contributes to investment decisions only when accompanied by disciplined financial management.

### **Lifestyle Effects: Explaining Differences from Earlier Studies**

Contrary to several previous studies conducted among students and consumer-oriented populations, lifestyle does not significantly affect investment decisions or financial management in this study. This finding contradicts studies that report a strong influence of hedonistic or consumption-oriented lifestyles on financial behavior.

The discrepancy can be attributed to differences in sample characteristics. In professional organizational settings such as SCCIC, financial decisions tend to be more structured and guided by long-term planning rather than lifestyle-driven consumption. Therefore, this study extends previous research by demonstrating that the effect of lifestyle on investment behavior is context-dependent.

### **Financial Management as a Mediating Mechanism: Alignment with Behavioral Finance Literature**

The most robust finding of this study is the strong positive effect of financial management on investment decisions. This result strongly supports previous studies that identify financial management as a key determinant of investment behavior. Consistent with (Muhammad & Faradisi, 2023) and (Shintawati & Budidarma, 2023), individuals with better financial planning and budgeting skills are more likely to make rational investment decisions.

Furthermore, the full mediation role of financial management confirms and extends prior research by empirically demonstrating that financial literacy and income influence investment decisions

only through financial management. This finding strengthens personal financial management theory and provides empirical clarification for mixed results reported in earlier studies regarding the direct effects of financial literacy and income.

### **Positioning the Findings within the Broader Literature**

Overall, this study contributes to the existing literature by reconciling conflicting empirical findings on the determinants of investment decisions. While earlier studies emphasized direct effects of financial literacy, income, or lifestyle, this research highlights the central role of financial management as a behavioral mechanism.

By positioning financial management as a full mediator, the study explains why some previous research found weak or inconsistent direct effects. Thus, this study does not contradict prior findings but rather integrates them within a broader behavioral finance framework.

### **CONCLUSION**

This study provides empirical evidence that financial management plays a pivotal role in shaping individual investment decisions. The findings demonstrate that financial literacy and income do not directly influence investment decisions among SCCIC employees. Instead, their effects are transmitted through financial management, which acts as a full mediating variable. Individuals with higher financial literacy and higher income levels tend to manage their finances more effectively, and this improved financial management capability significantly enhances the quality of their investment decisions.

In contrast, lifestyle does not exhibit a significant direct or indirect influence on either financial management or investment decisions. This result suggests that, within a professional organizational context, investment behavior is less driven by consumption-oriented lifestyle patterns and

more strongly determined by structured financial planning, budgeting, and resource allocation practices.

The results further highlight that financial management is the most dominant predictor of investment decisions, as evidenced by its very large effect size and strong path coefficient. This underscores the importance of practical financial management skills—such as budgeting, saving, and investment planning—over financial knowledge alone in translating resources and information into optimal investment outcomes.

From a theoretical perspective, this study strengthens behavioral finance and personal financial management theories by confirming that financial behavior functions as a critical mechanism linking financial literacy and income to investment decisions. Practically, the findings imply that financial education programs should not only focus on improving financial literacy but also emphasize the development of concrete financial management skills. For organizations, particularly knowledge-based institutions, strengthening employees' financial management capabilities may be an effective strategy to promote more rational and sustainable investment behavior.

Finally, this study is limited to a single organizational setting and cross-sectional data. Future research is encouraged to extend this model to different sectors, incorporate longitudinal designs, and explore additional behavioral or psychological variables that may further explain investment decision-making under varying economic conditions.

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