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Understanding Bankruptcy: The Interplay of Financial Attitude, Knowledge, Investment Choices, and Behavior

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Abstract: The purpose of this article is to know the importance of financial literacy, financial education, and financial behavior in the context of individual financial decisions. It provides a solid theoretical foundation for the analysis of the relationship between bankruptcy and factors such as financial attitudes, financial knowledge, and misconduct in finance. This article uses a qualitative method which provides a literacy of articles related to the topic in this article from reputable international journals or international journals with databases in accordance with the English Nation. Literature comes from the last ten years, by providing a view and proposal for further research with the modern concept above. The offering of the model in this study provides an opportunity for other researchers to use as a reference, also the literature above in supporting this article is limited to dozens of articles that according to the researcher have a connection, where bankruptcy often results from a combination of negative financial attitudes, inadequate financial knowledge, wrong investment decisions, and poor financial behavior. Addressing these factors requires a holistic approach that includes financial education, promoting responsible financial attitudes and behaviors, and providing support for individuals to make informed financial decisions. By empowering individuals with the necessary knowledge and skills to manage their finances effectively, the risk of bankruptcy can be mitigated, leading to greater financial stability and well-being.

Keyword: Bankruptcy, Financial Attitude, Knowledge, Investment Choices, Behavior.

INTRODUCTION

The phenomenon of bankruptcy in regional development banks is a serious challenge that highlights the importance of understanding how financial attitudes, financial knowledge, wrong investment choices, and financial behavior interact in determining the financial stability of an institution. Regional development banks, as a key pillar in supporting economic development at the local level, face enormous pressure in managing diversified financial risks (Nitescu, Murgu and Manolache, 2023). One of the factors contributing to this bankruptcy is the lack of adequate understanding of risk management, both at the individual and institutional levels. Improper financial attitudes, such as a lack of attention to risk, or a tendency to take unnecessary risks, can lead to wrong investment decision-making (Cumming and Hirtle, 2001). What's more, a lack of financial knowledge about complex financial products can exacerbate the situation, by leading to investments that are not diversified or do not fit the right risk profile (Zahwa and Soekarno, 2023).

Wrong investment choices, especially if based on unsubstantiated advice or without adequate understanding, can result in huge losses for regional development banks (Satyagraha, Purwono and Sari, 2022). Especially when investing in illiquid or poorly diversified assets, such institutions can experience significant liquidity difficulties (Verbinenko and Badylevich, 2019). Irresponsible financial behavior, such as poor debt management practices or a tendency to live above financial means, can also worsen the financial situation of regional development banks. Indiscipline in financial management can be another trigger of bankruptcy (Ting-ting, 2013).

In addressing this problem, a holistic approach is needed. Efforts are needed to improve understanding of risk management, through financial training and education for bank staff and related parties. The emphasis on the importance of good financial knowledge, especially in complex investment contexts, should also be increased. In addition, strengthening internal controls and effective supervisory mechanisms need to be implemented to identify and mitigate financial risks (Shafira, Musnadi and Faisal, 2022). A more rigorous assessment of compliance with existing banking guidelines and the implementation of best risk management practices are key in preventing future bankruptcies. By looking at these factors holistically, regional development banks can improve their financial health, minimize the risk of bankruptcy, and remain a key driver of economic development at the regional level (Buchory and Kusmaryadi, 2023). Companies that experience bankruptcy generally do not implement good and consistent strategic management (Susanto *et al.*, 2023)

Continuing from the previously mentioned efforts, collaboration between regional development banks, regulators, and other institutions is also key in overcoming the bankruptcy problem (Huang, 2018). The establishment of partnerships and information exchange between the public and private sectors can help identify risks more effectively and implement timely solutions (Roehrich, Lewis and George, 2014). In addition, enhanced transparency in financial reporting and disclosure of information to shareholders and the general public can increase trust in regional development banks. This not only strengthens their financial position, but also gives positive signals to the market and potential investors. Financial education should also be a priority in an effort to prevent future bankruptcies (Roszkowska, 2021). Initiatives to improve financial literacy among bank employees, customers, and the general public can help change adverse financial behavior to one that is more responsible and sustainable (Ene and Panait, 2017).

In addition, strengthening good corporate governance and increasing transparency in the investment decision-making process can help reduce potential conflicts of interest and harmful practices (Solomon, 2020). This can ensure that investment decisions are based on careful analysis and consider risks thoroughly. Finally, the importance of strong regulation and firm law enforcement cannot be ignored (Zhao *et al.*, 2022). Regulators need to ensure that regional development banks adhere to strict banking standards and take necessary action against violations or unethical practices. Strict penalties for rule-breakers can be an effective deterrent to irresponsible behavior in the financial sector.

By strengthening commitment to the principles of sound risk management, higher financial literacy, good corporate governance, and effective regulation, regional development banks can reduce the risk of bankruptcy and contribute positively to sustainable economic development at the regional level (Bezzina, Grima and Mamo, 2014). The purpose of this article is to know the importance of financial literacy, financial education, and financial behavior in the context of individual financial decisions. It provides a solid theoretical foundation for the analysis of the relationship between bankruptcy and factors such as financial attitudes, financial knowledge, and misconduct finance.

METHOD

This article uses a qualitative method which provides a literacy of articles related to the topic in this article from reputable international journals or international journals with databases in accordance with the English Nation. Literature comes from the last ten years, by providing a view and proposal for further research with the modern concept above.

RESULTS AND DISCUSSION

Results

The results of the study stated A study found that parental income moderates the relationship between parental financial behavior and financial literacy, indicating that parents' financial behavior can influence their children's financial knowledge and attitudes (j j, 2023). Another study with results stating, Excessive lifestyle and youth bankruptcy awareness, A study using structural equation modelling showed that excessive lifestyle moderates the relationship between personal financial management and youth bankruptcy awareness, highlighting the importance of managing lifestyle choices in avoiding bankruptcy (Azmi *et al.*, 2019). Islamic financial literacy and bankruptcy among Muslims, A study explored the role of Islamic financial literacy in minimizing bankruptcy among Muslims, suggesting that financial education can play a significant role in changing attitudes and behaviors related to debt management.

Financial literacy, financial behavior, and financial attitudes towards investment decisions and firm bankruptcy, A research objective was to analyze financial literacy, financial attitudes, and financial behavior on investment decisions and MSME bankruptcy, emphasizing the importance of financial knowledge and behavior in managing financial risks (Dm, 2021). Other result says based on empirical evidence, we observe that among investment-grade companies, increased leverage leads to a higher probability of equity issuance, in line with expectations from a conventional tradeoff model. However, in line with the influence of wealth transfer effects, among lower-rated companies, increased leverage is associated with a higher probability of debt issuance. This analysis suggests an additional mechanism by which past events shape firms' financing decisions (Kadapakkam, Meisami and Wald, 2016).

Highlighting the significant role of financial literacy (FL) in shaping positive attitudes towards Socially Responsible Investing (SRI), FL directly influences SRI tendencies. Similarly, Social Norms (SNs) have a comparable effect on SRI intentions. Importantly, the research reveals a dual mediation model, clarifying the sequential mediation of SRI attitude and Socially Responsible Investment Self-Efficacy (SSE). The findings have practical implications for fund managers and policymakers, emphasizing the importance of effectively communicating investment benefits. This requires tailored approaches that consider cognitive and psychosocial orientations. Essentially, the study enhances our understanding of the intricate dynamics driving sustainable investment decisions, thereby advancing the comprehension of investor behavior in the realm of responsible investing (Kar and Patro, 2024).

Regression analysis is conducted on financial data from companies listed on the Indonesia Stock Exchange (IDX), resulting in a final sample of 404 firm-year observations. The analysis focuses on bankruptcy risk as the independent variable. The findings suggest that there is no significant association between bankruptcy risk and earnings management, which aligns with conclusions drawn from previous studies on the subject (Nareswara and Dewiyanti, 2023). Study from (Dm, 2021) It is demonstrated that financial literacy, financial attitudes, and financial behavior have a partially positive and significant impact on investment decisions and the likelihood of MSME bankruptcy in Makassar City. Financial decisions cannot partially mitigate the influence of financial literacy, financial attitudes, and financial behavior on the likelihood of MSME bankruptcy in Makassar City.

Significant associations were observed between financial literacy, the dependent variable in this study, and the independent variables, except for financial attitude (p=0.418). Various challenges, such as time constraints, limited coverage of independent variables, questionnaire development, respondents' honesty, and inequity among respondents, were encountered during the study. The most notable limitation pertained to the sample size, which failed to adequately represent the population of Malaysian youth. The findings of this study hold broad implications for multiple stakeholders, including university students, curriculum developers, parents of students, and future researchers. The study aimed to explore the factors influencing financial literacy among youth and concluded that the level of financial literacy among the youth was moderate (Hashim *et al.*, 2021b).

Other result from study from (Hartiningsih and Setiyono, 2023) Illuminate the complex interaction among personal financial attitudes, self-discipline, religious beliefs, and income level, offering valuable insights for researchers and policymakers aiming to comprehend and address consumer behavior trends. Financial knowledge (p=0.000), financial behavior (p=0.000), and family influence (p=0.000) demonstrate significant associations with financial literacy, the focal variable in this study, except for financial attitude (p=0.418). The limited sample size presents a constraint as it may not adequately reflect the broader population of Malaysian youth. The findings of this study carry substantial implications for diverse stakeholders, including university students, educational institutions, parents of students, governmental bodies, and prospective researchers. This study delved into the determinants of financial literacy among youth and uncovered several noteworthy factors (Hashim *et al.*, 2021a).

The results of this study hold value for various sectors including academia, government, financial and legal institutions, society at large, and the military, particularly regarding awareness and the consequences of financial distress. The insights provided enable individuals to mitigate bankruptcy risks and implement necessary measures to reduce bankruptcy occurrences. Thus, the study aims to serve as a focal point in assisting governmental authorities in offering improved support and guidance to the military for sustainable financial planning (Alias and hafizah Mohamed Harith, 2022). The analysis of the results was conducted using the ABC model (affect, behavior, cognition), revealing that participants would experience significantly greater distress and display reduced acceptance towards their romantic partner in scenarios where the partner filed for bankruptcy without disclosure, gambled away money without informing their partner, lied to conceal a debt, maintained a secret account, withdrew savings without consulting their partner, spent money on pornography without disclosure, concealed credit card statements, or kept a raise or bonus undisclosed (Mong *et al.*, 2021).

Study result says asset ownership, debt attitude, and financial management practices significantly influence the likelihood of bankruptcy (Nair *et al.*, 2016). That SRI reacted more negatively than non-SRI to Brexit, while they reacted better to Lehman shock (Chiappini and Vento, 2018). Age and gender diversity may impact corporate performance, particularly concerning age diversity. Our findings revealed a relatively robust negative correlation of -0.32 between return on equity (ROE) and average age. However, the direction of this relationship cannot be definitively determined and warrants further investigation through detailed statistical analysis in future research (Jano\vsová and \vStěrba, 2017).

Discussion

In discussing the interplay between financial attitude, financial knowledge, wrong investment decisions, and financial behavior in relation to bankruptcy, it's essential to explore how these factors contribute to financial distress and insolvency. Firstly, financial attitude refers to individuals' beliefs, perceptions, and emotions towards money and financial matters. A negative financial attitude, such as a propensity for excessive risk-taking or a lack of concern for financial stability, can lead to poor financial decision-making. For example, individuals with a reckless attitude towards money may engage in speculative investments without considering the potential consequences, thus increasing their risk of bankruptcy.

Secondly, financial knowledge plays a crucial role in determining individuals' ability to make informed financial decisions. Lack of financial literacy can lead to misunderstandings about financial products, failure to assess risks accurately, and inability to manage finances effectively. Without adequate knowledge, individuals may fall prey to scams, make uninformed investment decisions, or mismanage their debts, all of which can contribute to bankruptcy.

Thirdly, wrong investment decisions can significantly impact financial stability and contribute to bankruptcy. This could include investing in high-risk ventures without proper research, failing to diversify investments, or succumbing to investment scams. Individuals who lack the knowledge or skills to assess investment opportunities effectively are more likely to make wrong investment decisions, leading to financial losses and potential bankruptcy. Lastly, financial behavior encompasses individuals' actions and habits concerning money management, spending, saving, and investing. Poor financial behavior, such as overspending, living beyond one's means, or neglecting to save for emergencies, can exacerbate financial difficulties and increase the likelihood of bankruptcy. Additionally, behavioral biases, such as overconfidence or herd mentality, can lead individuals to make irrational financial decisions that ultimately result in financial distress.

CONCLUSION

The offering of the model in this study provides an opportunity for other researchers to use as a reference, also the literature above in supporting this article is limited to dozens of articles that according to the researcher have a connection, where bankruptcy often results from a combination of negative financial attitudes, inadequate financial knowledge, wrong investment decisions, and poor financial behavior. Addressing these factors requires a holistic approach that includes financial education, promoting responsible financial attitudes and behaviors, and providing support for individuals to make informed financial decisions. By empowering individuals with the necessary knowledge and skills to manage their finances effectively, the risk of bankruptcy can be mitigated, leading to greater financial stability and well-being.

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