LITERATURE REVIEW ; THE INFLUENCE FINANCIAL BEHAVIOR AND KNOWLEDGE MANAGEMENT ON INVESTMENT DECISION

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Abstract

Good knowledge of management or finance can make someone have good financial behavior too. Investors experience more anxiety if they have more information. This research is to see whether there is an influence of financial behavior and knowledge management on investment decisions. This research uses a literature review method by reviewing research articles that are relevant to this research. From the studies carried out, there are financial behavior and knowledge management on investment decisions.

Keywords: Financial behavior, Investment decisions, Knowledge management

INTRODUCTION

Human life is often guided by goals to be achieved. For most individuals, happiness and success are the pinnacle of life achievements. However, the journey towards that goal can vary significantly from one individual to another. One crucial aspect in achieving this goal is the financial sector. Financial success, or what is often referred to as financial freedom, is one of the main pillars in achieving true happiness and freedom in life. The concept of financial freedom includes several key elements. First, is being free from financial burdens, such as debt. Second, have enough cash available to meet your needs and plan for the future with peace of mind. And third, feel protected from financial risks that may arise at any time. When someone reaches this stage, activities and decisions in their life are no longer solely centered on money, but rather on achieving goals that provide meaning and usefulness (Ryu & Kim, 2018)

One effective step that can be taken is to invest (Hartono, 2019). Investing can be a powerful tool for accumulating wealth over time, building financial security, and achieving desired financial freedom. However, data from a survey conducted by the Financial Services Authority (OJK) shows that only a small portion of the Indonesian population has good financial planning, namely only 12.6% (Annur, 2020). This shows that there is still a lot that needs to be done in increasing financial literacy and awareness of the importance of planning finances carefully. However, according to data from a survey conducted by the Financial Services Authority (OJK), only 12.6% of the Indonesian population has good financial planning. (Annur, 2020). This is because financial happiness requires mediation by financial management (Nabila et al., 2023).

Today's popular lifestyles such as culinary, fashion and social media mean that proper understanding of financial literacy is less implemented. Moreover, social media makes it easier for someone to do anything with the touch of their finger, including making investments. Riski & Sulistianingsih (2020) said that social media makes a strong contribution to the influence of financial literacy on individual financial behavior. The 21st century began with a technological explosion with the internet expanding throughout the world (Pham et al., 2021). The greater individual access to information on social media channels that provide news and information to strengthen financial literacy tends to have an impact in influencing individual financial behavior.

*Behavioral finance*Someone who has an angry nature is a big problem for some people. Psychologist Nienke de Bles and colleagues (2019), from Leiden University in the Netherlands,

the source of anger and angry episodes may lie in psychological disorders in the form of anxiety and depression. Anger correlates with optimistic risk estimates. Emotional states can influence the decisions they face, without cognitive assessment or personal interpretation, emotions cannot determine an interpretation of a situation. Meanwhile, Behavioral finance for someone who has trait anxiety is an event that easily occurs to someone due to certain non-specific factors (Sari & Batubara, 2017). Anxiety can arise through attention or concern for certain things or missions. Therefore, investors experience more anxiety if they have more information. Investors who are anxious tend to maintain their portfolio strategy and are reluctant to change it for reasons of inflexible strategy and investor financial inertia.

Knowledge about management or finance has a positive influence on a person's financial behavior. Knowledge about management can include how a person carries out financial planning, managing current and long-term finances (investments). With the knowledge about management or finance that a person has, it is hoped that they can make the right financial decisions. Good knowledge of management or finance can make someone have good financial behavior too (Fitriani & Widodo, 2020).The higher the accounting or financial knowledge possessed by an investor, the easier it will be to make an investment decision (Fadilah*et al.,*2022).Fadilah's research results*et al.,*(2022);Fitriani & Widodo (2020) stated that*knowledge management*significant effect onInvestation decisiongeneration Z.

METHOD

This research uses a literature review method from the data obtained. The research presents the results of searches for research on the internet according to the variables of this research. Literature reviews are carried out with a focus on original articles containing abstracts, introductions, methods and results. Literature review is a systematic, explicit and reproducible method for identifying, evaluating and synthesizing research works and ideas that have been produced by researchers and practitioners. The aim of a literature review is to make an analysis and synthesis of existing knowledge related to the topic to be researched to find free space for the research to be carried out.

RESULTS AND DISCUSSION

The early 1990s were before behavioral finance entered the mainstream into the academic field. Shiller (2003), academic discussions began to shift from concepts such as time series of prices, dividends, and earnings, towards analyzes of how human psychology plays a role in financial markets. In 1991, Thaler and Shiller initiated a National Bureau of Economic Research conference series centered on Behavioral Finance (Shiller, 2003). The field of Behavioral Finance developed along with the revolution that occurred in psychology during the 1990s, which gave rise to the central role that feelings play in the decision-making process (Hirshleifer, 2015). These advances in psychology pair well with developments in Behavioral Finance to help apply how feelings can influence individual investment decisions.

Thaler (1999) successfully applied Behavioral Finance findings to predict the collapse of the Internet stock boom at the turn of the century and blamed the widely held EMH that credited all investors as rational and making unbiased forecasts about the future. At the time, regarding the lack of data on investors' psychological biases, Thaler (1999) predicted, “Until such data is available, we will never fully understand what I think will be known as the Great Internet Stock Bubble.” Thaler believes that the market is 20-30% overvalued and the only reason why the market continues to rise is because investors who are willing to bet on a decline have too few dollars to win and influence the market as the masses drive up prices (Thaler, 1999). Thaler

also believes that one important mistake that the greatest investors make is using rules of thumb, such as 60% dedicated to equity, allocated to their assets (Thaler, 1999).

Thaler (1999) argues that they should adjust their asset allocation based on certain signs in the market that indicate a potential crash. Sure enough, the Great Internet Stock Bubble burst in 2000, and the DJIA at one point lost more than 30% of its value. Shiller (2003) noted that emotions were tied into these market ups and downs because investor confidence increased dramatically during the period 1989 to 2000. Thaler argued that the media spread the false sentiment that the market would continue to rise without stopping, which many people believed (Shiller, 2003) . With Thaler's (1999) predictions and retrospective analyzes of technological improvements (Shiller, 2003), behavioral finance established itself as a legitimate tool for use in investment theory.

This financial behavior is seen as a goal-based theory, where all investors divide their wealth into the many layers of a portfolio pyramid that correspond to goals such as a secure retirement, tuition, or becoming rich enough to explore whatever pleases their minds. Friedman & Savage (1948) saw that the hope of wealth and protection from poverty share a role in our behavior, people who buy lottery tickets often buy insurance policies as well, therefore people were found to be more risk seeking to buy lottery tickets when they were risk averse enough to buy an insurance policy. Friedman & Savage (1948) further observed that people buy lottery tickets because they aspire to reach a high social class, whereas they buy insurance as protection against falling into a lower social class. Markowitz (1952) clarified Friedman & Savage by noting that people or investors aspire to move up from their current social class or wealth to become better. Kahneman & Tversky (1979) expanded Markowitz's (1952) work into what is known as prospect theory.

In addition to emotions, there are many psychological traps that behavioral finance has identified that can wreak havoc on investors. Thaler (2016) credits economic pioneer Adam Smith with first discovering key psychological concepts such as loss aversion and overconfidence. Since Smith's initial discovery, behavioral finance has evolved radically and established a framework to help classify predictable investor mistakes. The five main traps that investors can fall into include: heuristics, prospect theory, overconfidence, misperception, and herding. From this central theme of behavioral finance, eight psychological biases have been considered for this research. These eight biases and two outside influences are the main criteria that influence individual investor decision making. A brief introduction to the behaviors selected for this study is as follows.

a. *Overconfidence Bias*
   Overconfidence is the tendency of people to overestimate their own skills, cognitive abilities and accuracy of information (DeBondt & Thaler, 1995).
b. *Representative Bias*
   This bias is also known as familiarity bias. When there is a lack of information, neural connections in the brain process information using shortcuts, to achieve the desired goal. Information is usually processed based on experience.
c. *Anchoring Bias*
   Investors who experience this bias have a tendency to set stock buying and selling prices based on past information.
d. *Availability Bias*
   Investors' preferences are based on available information and as a result irrelevant information sometimes influences investment decisions (Van Steen & Tanenbaum, 2002).
e. *Regret Aversion*

Regret avoidance is a psychological bias, arising from excessive focus on feelings of regret after learning that a wrong decision has been taken, especially because the outcome of the alternative was better than the outcome of the decision taken.

f. *Loss Aversion*

Loss aversion bias is a powerful bias, demonstrated by the originators of behavioral finance (Tversky & Kahneman, 1992). This refers to the tendency of people to save capital from reducing rather than focusing on increasing capital.

g. *Mental Accounting*

Mental accounting bias, also known as the "two pocket" theory, is a behavioral bias that occurs when individuals tend to treat each element of their portfolio separately.

h. *Herding*

Herd bias represents the tendency of investors to imitate the actions of a larger group, without independently considering whether those actions are rational or not.

i. *Trait anger*

Trait Anger refers to a long-standing personality characteristic that appears as a nearly constant tendency to become angry at the slightest provocation. People with high anger have a very low boiling point. Spielberger & Sydeman (1994) define that anger is an emotional state in which the mixture of feelings changes in terms of intensity, from low levels of annoyance or mild irritation to high levels of anger and anger.

j. *Trait anxiety*

Trait Anxiety refers to differences between people in terms of their tendency to experience anxiety in response to anticipated threats. Lazarus (1991) stated that anxiety and stress can be caused by long-lasting uncertainty.

Azizah (2020) financial behavior is behavior related to financial applications. Financial behavior is how individuals or households manage financial resources including planning, savings budgets, insurance and investments.

It can be concluded that financial behavior is a behavioral ability related to how to manage finances.

Lestari (2021) states that there are 2 (two) factors that influence financial behavior, namely:

a. Socioeconomic conditions of parents

Background of the economic situation of the family or parents as measured by income level, ownership of assets or facilities and parents' occupation.

b. Social media

Social media is an online facility that is often used today, useful for accessing information or online transactions.

Knowledge management is a process for disseminating, capturing and utilizing existing knowledge as a form of maintaining an organization's competitive advantage (Millmore, 2013). Dalkir (2015) stated that knowledge management is a systematic coordination within an organization that manages human resources, technology, processes and organizational structure in order to increase value through reuse and innovation. This coordination can be achieved through creating, sharing and applying knowledge using experience and actions that the company has taken for the continuity of organizational learning.

From various opinions about knowledge management, it can be concluded that knowledge management is a process within an organization managing existing knowledge, then this knowledge is utilized and conveyed to all stakeholders of the organization in order to achieve the vision and mission so that it continues to exist compared to other competitors**.**

According to Fachrunnisa et al., (2018) there are two forms of knowledge management, namely as follows: a) Knowledge management objective. In this first form, the emphasis is more on the exchange of knowledge. b) Knowledge management process. This second form

places more emphasis on converting tacit knowledge to explicit knowledge. Meanwhile, according to Dalkir (2015), there are four stages of the knowledge management process, namely as follows.

1. *Knowledge Creation*. In this first process, it is an individual or organizational effort to find and create knowledge.
2. *Storage.*In this second process, the results of the first process are stored. This second process is very important because if the resulting knowledge is not saved, it will be useless. If on a large organizational scale, the human brain is not the ideal medium used to store the resulting knowledge. Because the human brain has limitations in remembering everything.
3. *Distribution.*The next stage is distribution. This is the stage of sharing knowledge throughout the organization. The success of knowledge management is where individuals can receive and contribute to knowledge well. The form of distribution is from individual to individual, individual to group, individual to explicit source, group to group, and group to organization (Nonaka, 2013).
4. *Application.*The final stage in this process is the implementation of the knowledge results.

According to Nonaka (2013) knowledge management has 4 (four) indicators, namely as follows:

1. Socialization. Socialization (tacit to tacit): in this first stage the knowledge management process is sharing and distributing ideas and interactions between tacit knowledge and tacit knowledge. At this stage, organizational members discuss what is more important and use other people's thinking. Socialization is also known as the conversion of new knowledge through shared experiences.
2. Externalization. Externalization (tacit to explicit): This process focuses on an explicit approach to explicit knowledge. Externalization requires the expression of tacit knowledge into a form that can be understood by others. This helps in creating new knowledge because tacit knowledge goes beyond boundaries and becomes the collective knowledge of the group.
3. Combination. Combination (explicit knowledge): in the form of a collection of different knowledge, which has been exchanged, distributed, documented or discussed during meetings, processed and categorized to create new knowledge.
4. Internalisation. Internalization (explicit to tacit): Internalization involves the process of converting explicit knowledge to tacit knowledge. Internalizing ideas is effective in creating understanding and developing a learning culture (learning through action). If this tacit knowledge is read or practiced by individuals, it expands learning and knowledge creation.

Investment can be interpreted as an investment in an asset with the hope of getting a profit in the future (Sunariyah, 2013). Investment is basically the placement of a certain amount of funds at this time with the aim of obtaining a certain amount of profit in the future. Investment can be interpreted as a commitment to invest a certain amount of funds now with the aim of obtaining profits in the future (Herlianto, 2014). An investment decision is a decision to use funds. The appropriate use of funds is the use of funds that can make the owner of the funds more prosperous, or richer. Investment decisions can be grouped into long-term investments in the form of land, buildings, vehicles, machines, production equipment and other fixed assets as well as short-term investments such as investments in cash, short-term securities, receivables and inventories. According to Kasmir (2013), decisions regarding investment are

related to the number of assets owned, then the placement of the composition of each asset, for example in the form of allocation of cash, fixed assets or other assets. Capital investment is one of the main aspects in investment decisions apart from determining asset composition. The decision to allocate capital to investment proposals whose benefits will be realized in the future must be considered carefully. Due to uncertainty in the future, the benefits obtained are uncertain, so the investment proposal contains risks. Consequently, investment proposals must be evaluated and linked to risks and expected returns.

People's goal in investing is basically to develop the funds they have or hope for future profits. In general, the objective of investment is to seek profit, but for certain companies there may be other main objectives besides seeking profit. In general, investment objectives are as follows: a). To obtain a fixed income in each period, such as interest, royalties, dividends, or rent and so on. 2b) To form a special fund, for example a fund for expansion, social interests. c) To control or control another company, through ownership as equity in that company. d) To ensure the availability of raw materials to obtain a market for the products produced. e) To reduce competition from similar companies. f) To maintain relationships between companies (Noor, 2013).

Types of investors according to their risk profile in investing can be classified as follows: 1) Devensive. This type of investor is an investor who tries to make a profit and avoids the slightest risk from the investment he makes. This type of investor does not have enough confidence in speculation, and chooses the right time to invest so that the possibility of risks that will arise is very small. 2) Conservative. Conservative, this type of investor usually invests to improve the quality of family life and invests over a long period of time. For example, to improve children's education at university or prepare provisions for life in old age. Even though conservative investors often invest, these investors generally allocate little time to analyze and study their investment portfolio (Marsis, 2014).

Investment can have three aspects as follows, namely: a) Aspects of money (invested) and (expected), so as to assess future (wealth). Therefore, to assess (feasibility) of investment the concept of money is also used. b) Time aspect (now and future) therefore to assess investments the time aspect is also used. c) Benefit aspect. From this benefit aspect, assessing the feasibility of an investment must also look at the benefits and costs it causes using the benefit principle or cost benefit ratio. Motivation and aspects that influence investment: a) Investment due to necessity or need, is investment that occurs automatically in accordance with the development of the life needs of a person or group of people, or an organization, even a country. This type of investment is driven by future needs. b) Investment because of hope, is investment that is made intentionally because there is hope of getting benefits or profits. This investment can be made by an individual, a group of people, or an organization because of a desire for the future (Noor, 2013).

Several things to consider when investing include: 1) Financial Assets. a). Investment Goals, Investors must determine the goals they want to achieve. Generally, the main goal of people investing is to seek profits or additional income in the future. b). Get to know the character, generally the investor's character consists of three characters, risk taker, risk avoider, and neutral. The investor's character will influence behavior in investing. This character determines the right strategy in investing. c) Study Finance (Capital). The size of the capital depends on the needs and abilities of an investor. The greater the need for capital, the greater the expected profits later. d) Type of investment chosen, to choose the type of investment, investors need to make a plan regarding expenditure for the investment period, short, medium, long. Every expense requires a certain amount of money whose source of income must be found. By knowing the amount of expenses, both short-term and long-term expenses, investors can determine the type of investment they want to make. The investment period can help determine how much risk can be borne. In general, people who invest for the long term bear greater risks.

This is because stock investments experience high fluctuations from time to time. e). Benefits and risks. The size of the profit from investment results depends on the size of the goal and a person's ability to make it happen and there must be harmony between the profit and the ability possessed in determining goals.
Rahardjo (2013), explains several investment benefits that investors can experience, including: a) Being able to obtain very varied profits. b) Providing a wide choice of investment instruments. c) Able to take advantage of every momentum of economic, political and business situations to generate profits. d) Able to develop the funds owned systematically and directed according to the desired profit target. e) Able to diversify investments to increase profits and reduce potential risks.

CONCLUSION

Based on the literature review that has been carried out using relevant research articles, there is the influence of financial behavior and knowledge management on investment decisions. Behavioral finance for someone who has trait anxiety is an event that easily occurs to someone due to certain non-specific factors. Anxiety can arise through attention or concern for certain things or missions. Therefore, investors experience more anxiety if they have more information. Anxious investors tend to maintain their portfolio strategies and are reluctant to change them for reasons of inflexible strategies and investor financial inertia.With the knowledge about management or finance that a person has, it is hoped that they can make the right financial decisions. Good knowledge of management or finance can make someone have good financial behavior too.

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