



# How does MSMEs' Financial Behaviour Influence Financial Literacy?

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## ABSTRACT

There are around 64.19 million MSME participants, contributing 61.07% of GDP, or over Rp 8,573 trillion, and 97% of employment. The research demonstrates that one factor bolstering the Indonesian economy is the quantity of MSMEs that are now operating. The obstacles that currently face Indonesia's growing MSMEs will persist. According to the Indonesian Micro and Small Entrepreneurs Association's chairman, one of the reasons MSMEs haven't developed is a lack of financial literacy. In order to improve MSME management and output, this research seeks to ascertain the truth about financial behavior influencing the financial literacy of MSME actors. A sample of thirty-two MSME actors in Yogyakarta City were given questionnaires, and the inner and outer models were tested using the Smart PLS application. The findings demonstrated that MSME actors' financial activity had a major impact on their level of financial literacy..

**Keywords:** MSME, Financial Behaviour, Financial Literacy

## 1. INTRODUCTION

There are around 64.19 million MSME participants, contributing 61.07% of GDP, or over Rp 8,573 trillion, and 97% of employment. The research demonstrates that one factor bolstering the Indonesian economy is the quantity of MSMEs that are now operating. The obstacles that currently face Indonesia's growing MSMEs will not change. The Indonesian Micro and Small Entrepreneurs Association's chairman explained that one of the reasons MSMEs haven't developed is a lack of financial literacy.

In today's modern life, people must have adequate financial intelligence. Financial knowledge includes individual efforts in managing finances appropriately to achieve economic prosperity. A high understanding of financial literacy characterizes good financial intelligence. Most individuals experience failure in managing finances because they do not know how to manage and plan finances properly. The research results show that Indonesia gets a financial literacy score of 67%, better than Vietnam at 64%. Singapore received the highest financial literacy score of 79% due to respondents who actively invest and have a diverse investment portfolio. Hong Kong has a financial literacy score of 72%, the Philippines 71%, and Thailand 68%. The resulting literacy level score shows that people in Singapore and Hong Kong have sufficient knowledge of financial management to make investments and consider the risks they might face.

For Indonesia to be more capable of handling its finances, its financial literacy score needs to rise once more. The significance of financial literacy acquisition for MSME actors in order to improve their ability to manage the finances of their businesses. Since everyone needs to acquire basic financial knowledge and abilities from an early age, financial literacy is a fundamental need for all people. This is to help people manage their money, stay out of debt, and stop engaging in consumptive behavior in order to become financially prosperous. It is anticipated that having strong financial literacy will assist everyone in exhibiting sound financial conduct. [3]

The research has acknowledged the significance of financial literacy as a necessary component of consumers' sound financial behavior and informed decision-making. ([4]; [5]; [6]). It has been projected that the financial behavior of the younger generation will influence the global economy more than that of the previous generation [7]. In this era of digitalization, humans live lives entirely based on technology. Financial knowledge is no longer just basic knowledge; it is necessary to take it to the level of financial technology. Therefore, today's young generation must understand digital financial literacy, especially SMEs. Financial confidence has to do with the desired financial behavior and positively impacts planning and saving [8 A person or company actor has a low level of financial literacy, and their poor financial behavior will result in a decline in the sustainability of their business. investigation carried out [9] mentions that financial

behavior positively influences financial literacy. This research is inversely proportional to a study conducted by [10] claiming there is no relationship between financial behavior and financial literacy.

The occurrence prompts the author to examine the reality that motivates MSME actors to alter their conduct in order to improve their financial literacy and strengthen the position of already-existing MSMEs. The question is formulated as to whether MSMEs' financial issues can impact financial literacy, hence raising MSME actors' incomes. The purpose of this study is to examine and determine how financial conduct may impact MSMEs' financial literacy..

## **2. LITERATUR REVIEW**

### ***2.1. Understanding Financial Literacy***

To prevent financial difficulties, everyone needs to be financially literate. The Organization for Economic Co-operation and Development (OECD) defines financial literacy as possessing knowledge of financial concepts and risks as well as the ability, motivation, and confidence to apply that knowledge to various financial situations and draw wise decisions. This ability will help individuals and society become more economically stable and capable of participating in the economy. [12]. The financial problem concerns individuals' ability to manage their own finances [13]. Financial management in financial literacy is needed by related sectors as the key to financial security [14]

Financial literacy comprises two dimensions: understanding basic personal finance and using intimate financial knowledge and skills in practice. Related sectors need financial management in financial literacy as the key to financial security [14]. The achievement of security in financial literacy is related to the sector's ability to manage and plan for finance [15]. Financial literacy is needed for financial education and explaining various financial results. Financial welfare can be achieved by utilizing financial products or instruments optimally so that they can make the right decisions. OJK explained that the purpose of the financial literacy program is to educate the public on managing finances smartly. Low financial knowledge can be overcome, especially anticipating the rise of short-term investments that offer high returns regardless of the risks received. According to the survey, there are four categories for financial literacy: (1) Well-literate, which includes knowing and trusting about financial service providers and their offerings, including their features, benefits, and risks as well as their rights and responsibilities. It also includes being proficient in using these resources. (2) Sufficiently literate, possessing confidence and understanding regarding financial service providers, financial goods, and services, including their characteristics, advantages, and risks, as well as the rights and responsibilities associated with them. (3) Less literate; only familiar with financial services, goods, and institutions. (4) They must be literate, knowledgeable about financial services organizations, confident in financial goods and services, and proficient in their use.

Financial literacy indicators are divided into four aspects, namely (1) Basic financial knowledge, (2) Investment, (3) Savings and Loans, and (4) Insurance.

According to Huston's paradigm, exposure to financial education may improve a person's financial literacy and have an impact on their financial behavior. This could suggest that financial literacy has a moderating effect on the association between financial conduct and financial education. [18].

### ***2.2. Financial Behavior***

Financial behavior refers to the behavior related to money management [19]. Financial Behavior relates to individual financial responsibility for financial governance. Financial responsibility is the process of managing money and assets that are carried out productively. The main activity of financial management is the budgeting process. This financial behavior also studies how individuals behave in a financial determination—stressed that the use of the Theory of Planned Behaviour has a great potential in determining the desire of individuals to perform a financial-related action. The researchers stated that financial literacy is an essential element as an extension of the Theory of Planned Behaviour. Financial behavior is crucial to everyone's daily life [21]. The link between financial literacy and saving behavior among Ugandan owners of Micro and Small Enterprises (MSEs) was investigated by [22].

Variables of financial behavior (Rahmayanti *et al.*, 2019) include (1) Financial planning, (2) Financial management, and (3) Financial management

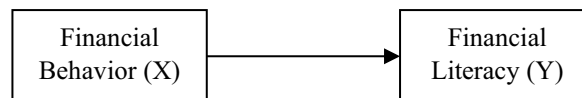
### ***2.3. MSMEs***

Micro, Small, and Medium-Sized Enterprises (MSMEs) are businesses that often have a small capital base and are controlled by one or more individuals. Depending on the sort of business, MSMEs are explained as follows: (1) Micro

Enterprises are profitable companies run by qualified individuals and individual business entities. (2) A small business is any profitable enterprise that operates independently and is run by people or organizations that do not function as branches or subsidiaries of larger enterprises that meet the requirements or as companies owned or controlled by medium-sized or large enterprises. (3) With a total net worth or annual sales proceeds, medium-sized enterprises are profitable economic ventures that operate independently and are run by people or business entities that are not subsidiaries or branches of companies that are owned, controlled, or that merge directly or indirectly with large or small enterprises.

## 2.4 Conceptual Framework and Hypotheses

Previous research findings elucidate the beneficial correlation between financial conduct and financial literacy. MSMEs' financial literacy will increase if their financial management is sound. [15]. Good financial management is reflected in precise planning and budgeting so that the short-term or long-term decisions will be as expected. The conceptual model developed for this study is based on previous research and the literature review. This is the Conceptual Framework:



**Figure 1. Conceptual Framework**

Low financial management can be overcome with an understanding of financial literacy because it is beneficial in developing positive economic attitudes in people's financial behavior. Financial behavior is reflected in its ability to manage debt and cash and evaluate financial management according to capacity. In addition, [15] mengungkapkan literasi keuangan secara positif influenced by the financial behavior of MSMEs in Medan. This research is also supported by research from [16], wherein adequate financial conduct can generate financial literacy, and where financial behavior positively influences financial literacy. The conceptual model has led to the development of the following theories:  $H_1$  Financial literacy has an influence on financial behavior.

## 3. METHODS

### 3.1 Nature of Research

Research methods are scientific methods used to obtain valid data to know, develop, and find specific knowledge for problem-solving.

The method used in this study is the quantitative method. Quantitative methods are based on positivism. To examine a population or a particular sample, its collection uses research data, is statistical in nature, and is used to test hypotheses. This quantitative approach measures and applies statistical analysis as data analysis. The tool in this study is a questionnaire distributed to a sample of a predetermined population. The analytical tool used in this study is quantitative data analysis that can be used to prove the direct or indirect influence of several independent variables on the dependent variable.

### 3.2 Operational Definition and Research Variable Indicators

Research variables determine a concept from a researcher that is mastered and formulated to be concluded. This study uses the following table of Operational Definitions and Research Variable Indicators:

**Table 1.** Operational Definition and Research Variable Indicators

Variable	Operational Definition	Indicator	Mesuarment Scale
Financial Literacy	A person's ability and knowledge in managing finances to achieve goals for their welfare.	a) Basic knowledge of finance b) Investment c) Savings and loans d) Insurance	Likert
Financial Behavior	Financial governance for the determination of individual economic decisions and reflected in the ability of cash management and evaluation of financial management.	a) Financial Planning b) Financial Budgeting c) Financial Management	Likert

### 3.3 Population and Sample

Population is a conclusion area of subjects or objects with specific characteristics or qualities determined by researchers to be studied and concluded from. The population in this study is Micro, Small, and Medium Enterprises (MSMEs) in Yogyakarta City.

A sample is a part owned by a population that is used as an object of direct observation and as a basis for concluding a population (Hernaeny, 2021). The sample in this study was 32 respondents. This is by the minimum respondent limit of 30 respondents [23].

### 3.4 Data Sources and Data Collection

The data in this study used primary data. Primary data directly relates to the problem under investigation or is obtained directly from the object. The preliminary data in this study was taken from questionnaires distributed to respondents with criteria determined by the researcher. The purpose of the questionnaire is to collect data, and the questions are organized according to the research variable measurement tools. Because respondents to questionnaires only respond to questions that the researchers have provided, this study uses questionnaires as a more effective way to collect data. To gather quantitative data, researchers measure and add up questionnaires to get numbers, which are then converted to the Likert scale. Skaka Likert is divided into five stages..

**Table 2.** Weight of Quantified Value

Alternative Answers	Value Weighting
Totally Agree	5
Agree	4
Disagree	2
Strongly Disagree	1

This research is also carried out by researching, reviewing, and examining literature related to problems in the form of books, journals, and articles related to this research. This aims to obtain basic theoretical information as theoretical knowledge to analyze the situation under study before conducting research.

### 3.5 Data Quality Test

Validity refers to the process of testing research questions to see how well respondents comprehend the questions that researchers have posed. Each question's worth is expressed by its weight, which is expressed as a sum determined by X. Correlating the item's result with the overall score is how the validity test is carried out. Analytical methods from the Smart PLS outer model measurement model are used in this validity test. If the estimated Pearson correlation ( $r$ ) value is more than the  $r$  table or the two-sided sig value is less than 0.05, the data is considered significant.

The consistency of responses from respondents is tested by the reliability test. A reliability test's surface of responses is determined by its coefficient, which is typically described in terms of numbers and shapes. Cronbach's Alpha is used to measure data dependability at a significance level of 0.07; data is considered dependable if the alpha value is greater than the  $r$  product moment value. Later on, this test will be seen in Smart PLS's outer model..

### 3.6 Data Analysis

In this study, full model structural equation modeling (SEM) analysis utilizing Smart PLS is used for hypothesis testing. Whether or whether there is an influence on the relationship between latent variables is explained by this model. One method of testing hypotheses is to examine the result of the inner model's Peth Coefficient computation. A hypothesis can be deemed accepted or proven if its statistical T value exceeds the table T of 1.96 ( $\pm 5\%$ ). This implies that each hypothesis can be accepted or proven if its statistical T value exceeds the table T.

## 4. RESULT AND DISCUSSION

### 4.1 Result

Thirty-two MSME actors in Yogyakarta City were given questionnaires as part of this research. Partial Least Square Software Smart PLS version 4 is the model used in this investigation. A sketch of the outside model design can be found below.:

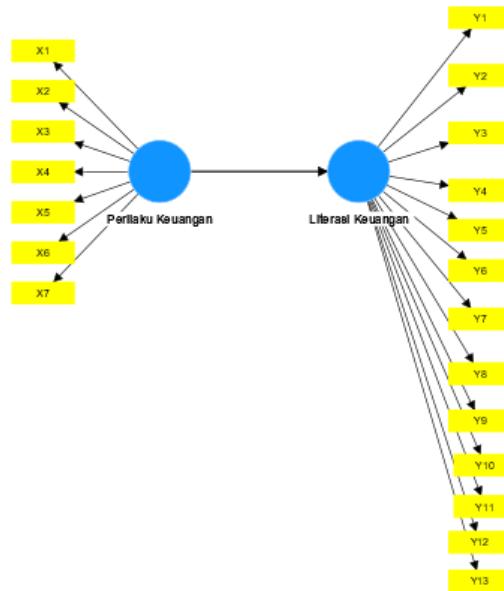


Figure 2. Outer Model Planning

#### 4.1.1 Outer Model

Convergent Validity is a method used to assess item reliability (validity indicator) by displaying the loading factor value. The loading factor is a correlation coefficient that quantifies the relationship between an item's score and the indicator score used to gauge the construct. The loading factor limit of more than 0.7 is appropriate for this investigation. Table 3. Loading Factor In this manner:

Table 3. Loading Factor

Variable	Indicator	Outer Loading
Financial Behavior	X1.1	0,874
	X1.4	0,921
	X1.5	0,794
Financial Literacy	X1.6	0,950
	Y1	0,733
	Y3	0,734
	Y6	0,825
	Y7	0,838
	Y10	0,716

The loading factor results show that several indicator values exceed less than 0.70. So that the indicator is deleted and henceforth uses data that is already valid or meets *the convergent validity* above.

The average percentage of variance derived from variables that describe convergent indications between indicator items is known as AVE. Every question item with a value greater than 0.5 is considered to have a good AVE value [25].

**Table 4.** Result Average Variance Extracted (AVE)

Average variance extracted (AVE)	
Financial Behavior	0,786
Financial Literacy	0,594

Based on the AVE test above, it can be seen that the AVE result exceeds 0.5, which can be interpreted as having met the requirements of good convergent validity.

By examining the value of the cross loading contract measurement, discriminant validity is applied. The degree of correlation between each construct and its indicator as well as indicators of other block constructions is shown by the cross loading value. If there is a stronger association between a measurement model's construct and indicator than there is between the indicator and other block constructs, then the measurement model has good discriminant validity. This is the table.:

**Table 5** Discriminant Validity

	Financial Literacy	Financial Behavior
Financial Literacy	0,771	0,887
Financial Behavior	0,757	

This result shows that the validity of the discriminant variable of work requirements is met.

*Composite Reliability* Testing is used to test the validity of instruments in research. The value in this test must be above 0.7. Suppose the value of the latent variable has a composite *reliability* or *Cronbach alpha* value of  $\geq 0.7$ . In that case, it means that the construct has good reliability or the questionnaire used as a tool in this study has been reliable or consistent. Tests related to *composite reliability* can be seen in Table 5:

**Table 6** Composite Reability

	Cronbach's Alpha
Financial Behavior	0,909
Financial Literacy	0,834

The construct has strong reliability, according to Cronbach's Alpha values, or the questionnaire employed in this study has been dependable.

#### 4.1.1 Inner Model

Fit models have a high fit when the value is close to the value of 1. Fit model testing can be seen in Table 6 below:

**Table 7.** Model Fit Results

	Saturated Model	Estimated Model
NFI	0,648	0,648

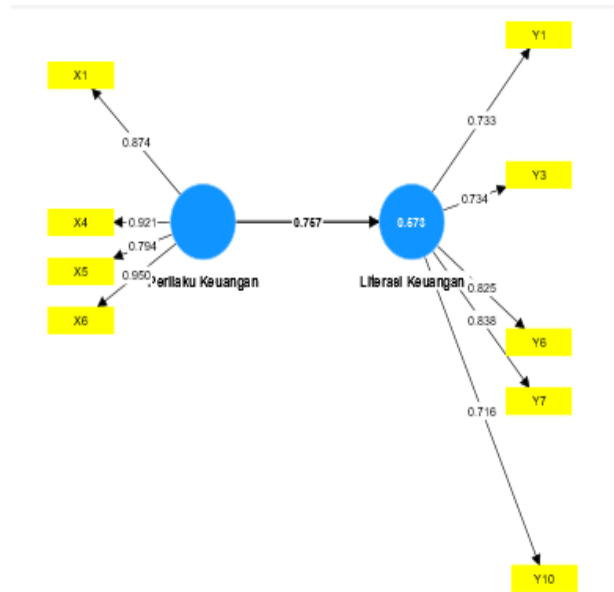
The results of the model fit show there is a good fit of the model.

Based on substantive theory, the inner model explains how latent variables relate to one another. One way to evaluate the impact of some independent latent factors on dependent latent variables is to look at the difference from the R square. [26].

**Table 8.** R Square Results

Variable	R Square
Financial Literacy	0,573

Based on Table 7 obtained an R Square of 0.573, this means that Financial Behavior influences 57.3% of the variation in Financial Literacy while other causes explain the remaining 42.7%.



**Figure 3. Result of Outer Model**

Examining the result of the path coefficient computation in the inner model is how hypothesis testing is carried out. A hypothesis can be deemed accepted or proven if its statistical T value exceeds the table T of 1.96 ( $\pm 5\%$ ). This implies that each hypothesis can be accepted or proven if its statistical T value exceeds the table T.

**Table 9. Hypothesis Result Test**

	Original Sample (O)	Sample Mean (M)	Standard deviation (STDEV)	T statistics (JO/STDEV)	P values
Financial Behavior (X) -> Financial Literacy (Y)	0,525	0,544	0,051	14,750	0,000

Table 9 above shows that the P-value is less than 0.05. There is a significant positive influence between financial behavior and financial literacy.

**4.2 Discussion**

**The Effect of Financial Behavior on Financial Literacy.**

The findings of this study support previous research showing that MSMEs' financial literacy is influenced by their financial behavior. MSME actors with good financial behavior will increase financial literacy so that they are always vigilant and conscientious in their activities. Especially those related to financial transactions. Good behavior will also be cautious for MSME actors in acting so that MSME actors always want to improve their financial literacy to obtain more information related to financial management that can make it easy for them to record or manage finances such as digital financial planning.

## 5. CONCLUSION

Financial literacy can be impacted by financial behavior. The hypothesis test results, which show a P-value of less than 0.05, support this. At 57.3%, the use of financial behavior factors also has a significant impact. This is so that it affects more than 50% when one variable is used alone. The study's findings demonstrate that enhancing financial behavior will raise financial literacy, which will enable MSME players to handle their money more sensibly.

Suggestions from researchers applied further research can add more respondents so that it can reflect more optimal results..

## 6. AUTHORS' CONTRIBUTIONS

Alfiatul Maulida has contributed to ideas and innovations and is doing this research to complete this article (introduction to conclusion).

Aulia Nurafina contributed to data management and questionnaire distribution and helped create articles.

## 7. ACKNOWLEDGMENTS

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