The Impact Of Financial Literacy, Financial Attitudes And Financial Behaviour On MSMEs Growth

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***Abstract**.*

This study is aimed at investigating the effect of financial literacy, financial attitudes and financial behaviour on the growth of micro- and small-sector enterprises (MSMEs) in Trenggalek Regency, Indonesia. Data was collected using a structured questionnaire and a Likert scale. The analysis technique used in this research is partial least squares analysis using structural equation models (SEM-PLS). The results showed that financial literacy and financial behaviour has an effect on the growing of MSMEs In Trenggalek Regency. MSME managers who have a high level of literacy will have knowledge, skills and beliefs that will influence their attitudes and behaviour in making financial decisions. Financial attitudes have no effect on MSME growth. Although MSME owners have positive attitudes towards finance, they may be unable or unwilling to take financial steps that support the growth of their business.

Keywords: Financial Literacy, Financial Attitude, Financial Behaviour and MSMEs Growth.

I.   INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) in Indonesia are mostly household business activities that can absorb a lot of labour. Based on data from the Ministry of Cooperatives and SMEs, in 2019 there were 65.4 million MSMEs in Indonesia. With the number of business units reaching 65.4 million with a total employment of 123.3 thousand workers. This proves that the impact and contribution of MSMEs is very large towards reducing the unemployment rate in Indonesia. With more and more labour involvement in MSMEs, it will help reduce the number of unemployment in this country.The Covid-19 pandemic in 2020 had a different and more serious impact than the previous 2 crises. MSMEs experienced a decrease in income, disruption of cash flow, bad credit and an increase in workers being laid off [7]. The recovery of MSMEs will depend heavily on the policies implemented by the Government. The Government's handling of the Covid-19 pandemic in the health sector is an absolute requirement for economic recovery, including MSMEs. In this effort, the government provides various incentives to MSMEs in the form of interest rate subsidies, credit restructuring, access to capital credit, and guarantees with a total budget of IDR 123.46 trillion. In addition, the government will also provide effective welfare support to MSMEs in the form of easy access to working capital loans [16].In the ASEAN Investment Report 2022, published in October 2022 by the United Nations Conference on Trade and Development (UNCTAD), there are 65.46 million MSME players; they contribute 60.3% to GDP and have the ability to absorb 97 per cent of the workforce in Indonesia. Currently, MSMEs are on a positive trend and continue to increase every year. This trend will have a positive impact on the Indonesian economy.

Currently, MSMEs are on a positive trend and continue to increase every year. This trend will have a positive impact on the Indonesian economy. According to data collected by the Ministry of Cooperatives and SMEs, MSMEs contribute 60.5% to the national GDP. This shows that MSMEs in Indonesia have great potential to grow so that they can contribute even more to the economy.As a state organiser, the government can help MSME players to develop further. The government of the Republic of Indonesia has helped MSMEs by providing People's Business Credit (KUR). According to data from the Ministry of Cooperatives and SMEs, KUR growth is IDR 178.07 trillion or approximately 16.25% in 2020 and IDR 92.59 trillion or approximately 8.16% in 2021. This also proves that MSME players really need an injection of funds in developing their business.These government efforts must be maximally utilised by MSMEs. But unfortunately, MSMEs still often face obstacles in running their businesses, especially related to human

resources, capital and marketing [3]. MSMEs are often described as businesses with weak financial and management knowledge, which affects their access to financial institutions, especially formal financial institutions (Bongomin, et al., [6], [14]. One of the things that must be done is the need for efforts for MSMEs to improve financial literacy. Understanding financial literacy is very important for MSME stakeholders in running their business, such as the ability to prepare financial reports [9].

By being able to prepare financial reports properly, the possibility of receiving funding from financial institutions will also increase.Low financial literacy has prompted the Financial Services Authority (OJK) to conduct a National Survey of Financial Literacy and Inclusion (SNLIK) in 2022. The results retrieved that the financial literacy index of the Indonesian people is 49.68%, an increase compared to 2019 which was only 38.03% and in 2016 it was 29.7%. The 2022 SNLIK results are one of the key factors for OJK and other stakeholders to formulate policies, strategies, and design financial products/services in accordance with consumer needs and improve the welfare of being part of society. The priority targets of financial literacy in 2023 are students, MSMEs, people with disabilities and communities in 3T areas (frontier, outermost and disadvantaged). [19] Various programmes have been designed by the local government of Trenggalek Regency for MSMEs in the region. The success of MSMEs depends on the business management of business owners. Financial management of MSMEs is one of the important things that must be learnt so that a business can run well. The problem is that most MSME entrepreneurs in rural areas often do not understand their own financial situation. The negative impact is that the company cannot develop further and even fail [10].According to research conducted by Bongomin, et.al. [6] shows that financial literacy has a strong influence on access to finance in the context of MSMEs in developing countries and has a significant impact on MSME growth. This is in line with research conducted by Bolarezo & Nielson [5] and Bruhn et.al.

[8] observed that financial literacy through business training results in financial knowledge and business skills needed for SME growth in developing countries. However, another researcher Safitri [23] showed that financial literacy has a negative effect on the growth of SMEs.In addition to financial literacy, another factor that is thought to affect MSME growth is financial attitude. There are several studies that state that financial attitudes affect the growth of MSMEs [1], [21]. However, examined MSMEs in Pakistan and found that financial attitudes have no effect on company growth [2].Financial behaviour actually influences the determination of company finances which has an impact on increasing the company's financial performance. The better one's financial behaviour, it will affect company performance [23]. Different research results were conducted by Sumani et al. stated that financial behaviour has no effect on financial behaviour.Referring to previous research and the importance of financial literacy for the progress of MSMEs, this study will conduct further tests related to the effect of financial literacy, financial attitudes and financial behaviour on the growth of MSMEs.

II.   LITERATURE REVIEW

Financial Literacy

According to the Financial Services Authority (OJK), Financial Literacy is the knowledge, skills and beliefs that influence attitudes and behaviours to improve the quality of financial decision-making and management to achieve public financial well-being.Financial literacy is a measure of the extent to which a person understands important financial concepts and has the ability and confidence to manage their personal finances by making the right short and long decisions by taking into account life events and changing economic conditions [22]. According to OJK, there are several levels or classifications of financial literacy, namely: well literate, sufficient literate, less literate and not literate.

Financial Attitudes

Financial attitude is a state of thinking, arguing, and evaluating finance [4]. If someone has sufficient knowledge and ability to act in a certain way then their attitude will influence the decision to do or not do something, then the combination of awareness, knowledge, skills, attitudes and behaviour will determine financial decisions, thus leading to the final result in personal finance and social welfare.Someone who has a good financial attitude tends to choose to save, save and not be consumptive, and plan for retirement [11]. At

other research explains that there are seven financial attitudes, namely: (1) Attitude towards money; (2) Attitude towards purchasing power; (3) Attitude towards personal financial management; (4) Attitude towards savings and investment; (5) Attitude towards loans; (6) Attitude towards insurance; (7) Attitude towards digital finance [23].

Financial Behaviour

According to Kholifah & Iramani [15] financial behaviour is a person's ability to manage planning, budgeting, checking, managing, controlling, and finding and storing daily funds. According to Chinen and Endo (2012), individuals who can make proper financial assessments will not have financial problems in the future, show healthy behaviour, and can identify the priority of their spending needs.Financial behaviour refers to human behaviour related to financial management. Financial behaviour relates to the way people handle, manage and use their money. [4]. This can be achieved when a person has strong goals, intentions and motivation to have good financial behaviour so that they can manage the income received and do financial planning.**MSMEs and MSME Growth**

According to Law No. 20 of 2008, the definition of Micro, Small and Medium Enterprises (MSMEs) are:

1. Micro Enterprises are production businesses owned by individuals and/or private business entities that fulfil the criteria of Small Enterprises.

2. Small enterprises are independent productive economic businesses carried out by individuals or business entities that are not subsidiaries or affiliates of businesses that are owned, controlled, or directly owned, either directly or indirectly part of a medium or large enterprise.

3. A medium-sized enterprise is a stand-alone productive economic enterprise, conducted by an individual or business entity which is not a subsidiary or branch of a company owned, controlled or a direct or indirect part of a small or large enterprise with an amount of total assets or annual sales that have been regulated by law.

According to Hatten [13], there are 5 stages in developing MSMEs (1) the existence stage, where the owner runs his own business; (2) the business survival stage, at this stage he already has to think about ideas that are worth developing, (3) the success stage, at this stage the owner already has to think about how to delegate authority to a manager, (4) the take off stage, namely when the company already has several divisions and (5) the resource maturity stage. This stage requires the management of human resources, finance, marketing and all aspects in general.

III.   METHODS

This research uses quantitative methods accompanied by hypothesis testing. The population of this study were MSME owners in Trenggalek Regency who had a Business Identification Number (NIB) and obtained a sample of 90 MSME respondents from 12 sub-districts. Sampling using proportional stratified random sampling technique because the population has heterogeneous and proportionally stratified elements or components [24]. Data was collected using a structured questionnaire and questions using a Likert scale.

The analysis technique used in this research is partial least squares analysis using structural equation models (SEM-PLS). According to Ghozali & Latan [12], SEM-PLS aims to develop or build theory (prediction orientated). PLS is used to explain whether there is a relationship between latent variables (prediction). Meanwhile, the questionnaire construction is based on a number of endogenous and exogenous variables. In this study, the exogenous variables are financial attitudes, financial behaviour and financial literacy, while the endogenous variable is the growth of MSMEs. The software used is WarpPLS.

IV.   RESULT AND DISCUSSION

Description of Respondent Characteristic

The number of respondents in this study were 90 MSMEs in Trenggalek Regency, which are spread across 12 sub-districts and have a Business Identification Number (NIB). At this stage, MSME respondents who are sampled have been classified based on gender, age and region (sub-district). The description of the respondents is explained as below:

Table 1. Respondent Characteristic

No	Category	Clasification	Sum	Percentage	Total (%)
1	Gender	Men	41	46	100
		Woman	49	54	
2	Age	21 - 25	7	8	
		26 - 30	24	27	
		31 - 35	23	26	100
		36 - 40	14	16	
		>45	22	24	
3	District area	Munjungan	10	11	
		Karangan	5	6	
		Trenggalek	7	8	
		Pogalan	20	22	
		Watulimo	4	4	
		Dongko	2	2	
		Bendungan	11	12	100
		Durenan	5	6	
		Kampak	8	9	
		Panggul	10	11	
		Gandusari	3	3	
		Tugu	5	6	

Source: Data processed by author 2023

There were 41 male respondents and 55 female respondents. And there are 12 sub-districts with a proportional distribution of data according to the number of MSMEs in the area that already have NIB.

Goodness of Fit SEM The feasibility of the research model can be proven by testing the multivariate coefficient of determination analysis expressed in Q-Square (Q). The criteria for model strength and weakness are measured based on the goodness-of-fit Q-squared prediction value which ranges from 0 (zero) to one (Latan and Ghozali, 2012). The closer the predictive relevance Q-Square value is to 0 indicates that the search model is weaker, conversely, the further away from 0 (zero) and the closer to the value of 1 (one), this can mean that the search model performs better. The formed structural model is appropriate, according to the calculation results. The 0.87 or 87.0% predictive relevance value also indicates that the data diversity that can be explained by the model is 87.0%, or 87.0% of the data information can be explained by the model. The remaining 13.0% of the data is explained by other variables and errors.

Measurement Model

The first part of the SEM analysis is the interpretation of the measurement model. Measurement is carried out on each research variable. The highest factor loading indicates that the indicator is the strongest measure of the measured variable. Indicators are declared significant as measurement variables if the P value is <0.05.

Table 2. Outer Loading Factor

	Financial Literacy	Financial Attitude	Financial Behaviour	Growth of MSMEs	Information
$X_{1.1}$	0.851				Significant
$X_{1.2}$	0.915				Significant
$X_{1.3}$	0.841				Significant
$X_{1.4}$	0.875				Significant
$X_{2.1}$		-0.048			Not significant
$X_{2.2}$		-0.008			Not significant
$X_{2.3}$		0.766			Significant
$X_{2.4}$		0.850			Significant
$X_{2.5}$		0.860			Significant
$X_{2.6}$		0.760			Significant
$X_{2.7}$		0.808			Significant
$X_{2.8}$		0.712			Significant
$X_{3.1}$			0.838		Significant
$X_{3.2}$			0.779		Significant
$X_{3.3}$			0.797		Significant
$X_{3.4}$			0.747		Significant

$X_{3.5}$	0.864	Significant
$X_{3.6}$	0.419	Significant
$X_{3.7}$	0.857	Significant
$X_{3.8}$	0.806	Significant
$X_{3.9}$	0.805	Significant
$X_{3.10}$	0.469	Significant
Y1	0.767	Significant
Y2	0.853	Significant
Y3	0.835	Significant
Y4	0.868	Significant
Y5	0.884	Significant

Source : *Data processed by SmartPLS 4*

From the table above, there are two indicators that are not significant, namely $X_{2.1}$ and $X_{2.2}$, so they are not included in further analysis. Meanwhile, other indicators show significant results, so it can be said that these indicators are significant for measuring latent variables and can be included in further analysis.

Structure Model (SEM)

In the SEM analysis section is the interpretation of the structural model. The structural model presents the relationship among research variables. While the structural model coefficient states the strength of the relationship between one variable and another. There is a significant effect between one variable on another, if the P-value <0.05. The analysis results are summarised in table 3

Table 3. Structural Hypothesis Model Test

	Coefficient	P value	Information
Financial Literacy (X_1) → Growth of MSMEs (Y)	0.343	< 0.001	Significant
Financial Attitude (X_2) → Growth of MSMEs (Y)	-0.117	0.125	Not Significant
Financial Behaviour (X3) → Growth of MSMEs (Y)	0.735	< 0.001	Significant

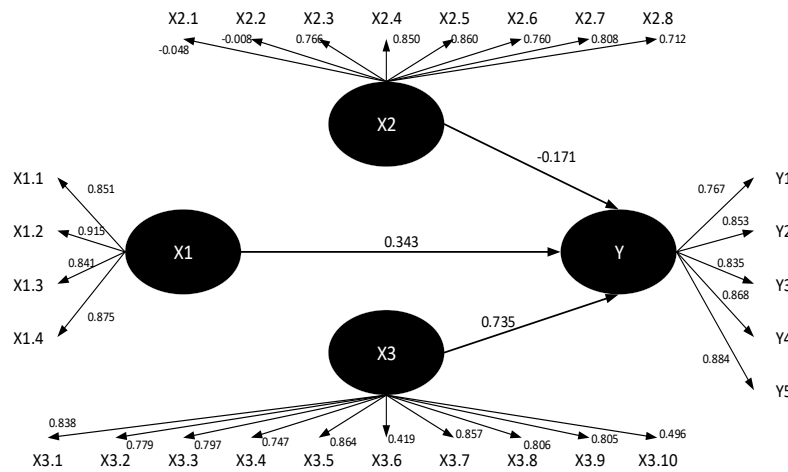**Source** *: Data processed by SmartPLS*

Fig 1. Path Diagram t-value Research Model

The results of testing the structural model of direct influence are presented in table 3 and Figure 1 as follows:

The influence between variable of Financial Literacy (X1) on MSME Growth (Y) obtained a structural coefficient of 0.343, and P-value <0.001. Because the P-value <0.05, and the coefficient is positive, it retrieved that there is a significant and directly proportional influence between financial literacy (X1) on MSME growth (Y). This means that the higher / better the Financial Literacy (X1), the higher / better the MSME Growth (Y).The influence of financial attitudes (X2) on MSME growth (Y) obtained a structural coefficient of -0.117, and a P-value of 0.125. Because the P-value> 0.05, it retrieved that there is no significant influence between Financial Attitude (X2) on MSME Growth (Y). This means that a high level of Financial Attitude (X2) will not result in a high level of MSME Growth (Y).The influence of Financial

Behaviour (X3) on MSME Growth (Y) obtained a structural coefficient of 0.735, and P-value <0.001. Because the P-value <0.05, and the coefficient is positive, it retrieved that there is a significant and directly proportional influence between Financial Behaviour (X3) on MSME Growth (Y). This means that the higher / better the Financial Behaviour (X3), the higher / better the MSME Growth (Y).The results showed that financial literacy has an effect on the growth of MSMEs. This means that when an MSME manager has a high level of financial literacy, it will have an impact on increasing the growth of the MSMEs he manages. This research is in line with studies conducted by Bongomin et al. [6], Ningtyas [17], Susan [25], concluded that financial literacy has a positive effect on MSME performance/growth. From the research data, it was found that MSME owners in Trenggalek district answered agree and strongly agree on financial literacy indicators.

This means that MSME owners have good literacy skills so that they are able to manage their business finances and carry out short- and long-term planning. The impact is that they are easier to get financing from financial institutions because they can make financial reports.The second hypothesis regarding the effect of financial attitudes on the growth of MSMEs is rejected, meaning that owners who have good financial attitudes do not have an impact on the increased growth of MSMEs. This is in line with Akhtar's research [2] which shows that financial attitudes have no effect on company growth. Company growth can be caused by managerial elements, including less professional management, less diversified human resources, and the existence of uncontrollable risk factors such as government policies. mismatch between attitudes and actions and unstable economic conditions.The results showed that financial behaviour has an effect on MSME growth, meaning that better financial behaviour by MSME leaders will have a very significant impact on MSME growth. The results of this study are in line with research conducted by Garg and Singh [11]. Based on questionnaire data distributed to respondents, namely MSME managers in Trenggalek Regency, it appears that MSME managers try to improve financial control, carry out personal financial management, have the habit of saving and investing, analyse their needs first before making loans and are active in village community empowerment activities. This will clearly have an impact on increasing the growth of MSMEs which can be seen from an increase in the amount of revenue and sales.

V.   CONCLUSION

Based on the findings in this study, financial literacy affects the growth of MSMEs in Trenggalek Regency. MSME managers who have a high level of literacy will have knowledge, skills and beliefs that will influence the attitudes and behaviour of MSME managers in making financial decisions. The accuracy of financial decision making will have an impact on the growth of MSMEs.The second theme is that financial attitudes have no effect on MSME growth. Although MSME owners have positive attitudes towards finance, they may be unable or unwilling to take financial steps that support the growth of their business. MSME growth is also influenced by other factors, such as external factors that dominate, high competition and managerial constraints in the company.Financial behaviour affects the growth of MSMEs. This shows that the ability of MSME managers to manage finances has an impact on increasing the growth of MSMEs in Trenggalek Regency.

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