

## Factors that Influence the Financial Literacy on Micro Small and Medium Enterprise

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### ABSTRACT

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Provide a study and analysis of the factors of financial literacy related to the financial management of MSMEs in the city of Medan as the purpose of this research. This objective is based on the existing conditions in which MSMEs activities run without relying on information and financial management that is arranged in an orderly and orderly manner. The research approach used is associative. Primary data as the type in this study were sourced from questionnaires and interviews. The population used is the perpetrators of SMEs in the food and beverage industry sector in the city of Medan, amounting to 120 respondents, using purposive sampling technique in sampling, then obtained as many as 100 samples used in this study as respondents. Each questionnaire statement collected and used as data in this study will be measured by validity and reliability tests. The data analysis method uses Confirmatory Factor Analysis (CFA) using the SEM (Structural Equation Model) structural equation model. Evaluation of the structural equation model using the t statistic and p value parameters. This study based on the test results found that three variables of financial literacy, including financial behavior, financial socialization, and bookkeeping systems positively and significantly affect it.

**Keywords:** Bookkeeping System, Financial Behavior, Financial Literacy, Financial Socialization, MSMEs

**JEL Classification:** G40, G53

## **INTRODUCTION**

In terms of numbers, MSMEs make a significant contribution to economic growth. However, MSMEs tend to experience conditions that remain unchanged and some experience ups and downs (Mead & Liedholm, 1998). Most MSMEs feel that their business is running well and normally, but in fact, their business often does not make progress. The absence of regularity in financial management and low financial literacy are one of the obstacles that hinder the development and success of MSMEs (Maulana, 2019).

Financial literacy for MSMEs is not only related to finance, but also how MSMEs can manage finances. The problem of how to manage finances well is still being faced by micro, small and medium enterprises. (Humaira & Sagoro, 2018) Ignorance and lack of understanding to manage finances is a problem that is often faced by MSMEs, this gives an illustration of the lack of knowledge and attitudes of MSMEs in managing business finances. To be able to manage business finances properly and appropriately, it is necessary to have knowledge and ability in managing finances by MSME owners

## **LITERATURE REVIEW**

The three main factors that influence financial literacy for micro, small and medium enterprises are financial behavior, financial socialization, and bookkeeping systems.

### **Financial Literacy**

According to (Lusardi & Mitchell, 2006) Financial literacy is how someone has knowledge and abilities and is accustomed to using them to obtain the right financial behavior, so that there is a relationship between financial knowledge and behavior with the concept of financial literacy. Meanwhile (Chen & Volpe, 1998) financial literacy can be concluded as an insight to run finance. Meanwhile, financial literacy is a benchmark for understanding financial thinking and the ability to manage finances that can be used as a means to make decisions in the near future and for a long time in accordance with the dynamics of needs and economic conditions (Remund, 2010).

### **Financial Behavior**

Financial behavior is a person's behavior in relation to financial management in daily life (Xiao, 2008). Financial Behavior relates to one's financial responsibilities related to how to manage finances. A person's financial behavior will be seen from how well a person manages cash, manages debt, savings and other expenses (Hilgert, M, & Sandra, 2003).

### **Financial Socialization**

An external factor that has the potential to increase financial knowledge and stimulate individual financial literacy is financial socialization (Maria, 2019). Knowledge of finance can be obtained by participating in financial socialization such as seminars, trainings on financial reporting, and can also be obtained by attending informal education or courses related to accounting. Financial socialization reflects the financial knowledge obtained by MSMEs so as to encourage their level of financial literacy. Research conducted (Dewanty & Isbanah, 2018) found that there is a positive influence of financial socialization on financial literacy.

### **Bookkeeping System**

MSMEs are required to carry out systematic written records or books of transactions that occur every day (Ikatan Akuntan Indonesia, 2018). Transaction recording generally uses an accounting system that serves to present financial information to internal and

external parties and as a basis for decision making (Meigs, Bettner, & Whittington, 1996). Through efforts to record various forms of transactions carried out by the company will be used as the basis for financial reporting, the importance of this recording is more directed at the implementation of financial records that should be carried out, so that financial income and expenses will be clearer (Adisaputro & Angraini, 2011).

## RESEARCH METHOD

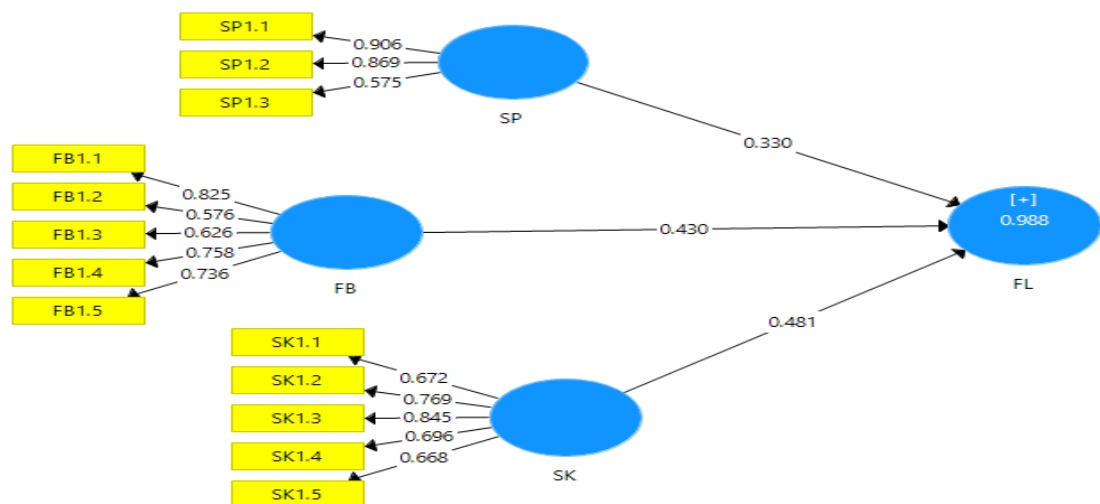
Associative is used as a type of approach in this study. The sample of this research is SMEs in various sectors of the food and beverage industry in the city of Medan. Data collection techniques were carried out by means of interviews conducted directly to respondents and questionnaires given to respondents. Data processing is done by Confirmatory Factor Analysis (CFA) for the variables that affect Financial Literacy using the SMARTPLS3 Structural Equation Modeling (SEM).

## RESULTS

### Testing the Measurement Model (Outer Model)

Indicators that affect financial literacy in the CFA test are presented in the path diagram in the figure below.

Figure 1. Structural model and CFA Outer Loading Value



All external loading factors are above 0.5 which meet the requirements for further testing. A construct in PLS-SEM is said to be reliable if it has Cronbach's Alpha coefficient, Composite Reliability value  $> 0.7$  and Average Variance Extranced (AVE) value  $> 0.5$ . Thus, the construct of this research can be said to be reliable and valid.

### Structural Model Testing

The CFA test is continued with the evaluation of the structural model for the purpose of knowing the relationship or the strength of estimates between latent variables based on substantive theory (Ghozali & Latan, 2015). The model tested for the R Square value of financial literacy is 1,000, this number shows that financial behavior, bookkeeping systems, and socialization have a strong influence of 100% on financial literacy.

Evaluation of the structural model can also be seen using the t-value parameter which represents the path coefficient by the PLS-SEM bootstrapping process. T-statistic is above 1.96 and p-value is below 0.05, so it can be concluded that financial behavior, financial socialization, bookkeeping system are factors that affect financial literacy.

## **DISCUSSION**

These results indicate that financial literacy as a dependent variable is significantly influenced by financial behavior. MSMEs are able to carry out planning and budget preparation so that they have clear and detailed goals for both short-term and long-term financial decisions. In addition, MSMEs are also able to manage their finances well by managing and improving the smooth flow of business cash. One of the financial managements is to separate personal money accounts from business accounts, and every daily receipt and expenditure is recorded and managed neatly. If a person's financial behavior is good, then his financial literacy is also good in managing his finances (Arianti & Azzahra, 2020). The results of the tests in this study are the same as those produced (Rahmayanti, 2019), (Ni Putu, G. Oka, & Hidayah, 2019) and (Sari et al., 2015) who found a significant influence between financial behavior and financial literacy.

The structural model test results in financial socialization and financial literacy having a positive and significant effect. Financial socialization that can be attended by MSMEs includes seminars and training related to accounting to improve MSME insights and skills in managing finances (Hirawati, Sijabat, & Giovanni, 2021). Financial socialization reflects the financial knowledge obtained by MSMEs so that they can improve their financial literacy. Research (Defiansih & Kardiyem, 2021) results that there is a positive and significant effect of financial socialization on financial literacy.

The examination of the accounting system variables resulted in financial literacy having a positive and significant effect. The bookkeeping system helps MSMEs to find out the amount of profit or loss experienced, identify every financial transaction that occurs, and can see the financial condition and business taxation that can be used as business assessment material. All aspects of recording in the bookkeeping system can improve the performance of a business (Pramestiningrum & Iramani, 2020). Planning and managing finances properly and appropriately is an ability that must be possessed by someone (Astuti, Tanjung, & Putri, 2019), because the better a business owner in managing finances even if it is only limited to simple notes, the better the level of financial literacy they have (Anggraeni, 2015).

## **CONCLUSION**

The conclusion that can be given at the end of this study is that from the three independent variables, namely financial behavior, financial socialization, and the bookkeeping system, it has a positive and significant influence on financial literacy. To improve financial literacy, socialization and training should be given to MSMEs so that business financial management and planning will be better.

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## DECLARATION OF CONFLICTING INTERESTS

Regarding the results of research, systematic writing, and publishing of articles, there is no conflict of interest.

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