

THE INFLUENCE OF FINANCIAL LITERACY AND FINANCIAL BEHAVIOR ON THE FINANCIAL PERFORMANCE OF SMES: A REGRESSION ANALYSIS STUDY IN INDONESIA

Yuszak Mahya

Faculty of Economics and Business, Padjadjaran University, Indonesia

Email: yuszak22001@mail.unpad.ac.id

ABSTRACT

The method used in this research is the regression analysis method with the variables used, namely Financial Literacy (X1), Financial Behavior (X2) on Financial Performance (Y). This research uses quantitative methods and uses a sample of 118 respondents who are SME owners spread throughout Indonesia. The research uses SPSS software to assist in data processing. From the results of this research it can be concluded that the t test results obtained a significant value for the financial literacy variable of 0.019 and a regression coefficient value of 0.209. The significance value <0.05 and the positive regression coefficient value indicate that financial literacy has a positive effect on financial performance. The results of the t test obtained a significant value for the financial behavior variable of 0.005 and a regression coefficient value of 0.200. The significance value <0.05 and the positive regression coefficient value indicate that financial behavior has a positive effect on financial performance. These findings also show that financial literacy has a positive effect on the performance of SMEs and financial behavior has a positive effect on the financial performance of SMEs in Indonesia.

KEYWORDS Financial Literacy, Financial Behavior, Financial Performance



This work is licensed under a Creative Commons Attribution-ShareAlike 4.0 International

INTRODUCTION

Small and Medium Enterprises (SMEs) have become an important part of Indonesia's economic structure. The role of SMEs is very important in contributing to economic growth and poverty reduction. However, SMEs also face various challenges, including the problem of effective financial management. Financial literacy and behavior, namely an individual's ability to understand and use financial

How to cite: Yuszak Mahya. (2024). The Influence of Financial Literacy and Financial Behavior on the Financial Performance of SMEs: A Regression Analysis Study in Indonesia. Eduvest Journal. 4(10): 9424-9433
E-ISSN: 2775-3727
Published by: <https://greenpublisher.id/>

information, has the potential to be a key factor in improving the financial performance of SMEs.

Small and Medium Enterprises (SMEs) in various countries, including Indonesia, are one of the tools that drive a strong community economy. With good financial literacy, SMEs can develop and SME performance can be more effective. Based on the results of a World Bank survey, it shows that Indonesia's financial literacy level is only "20%". This is lower than ASEAN countries such as the Philippines 27%, Malaysia 66%, Thailand 73% and Singapore 98%.

In general, SMEs often experience obstacles in their development. This is caused by various conventional problems that have not been fully resolved, such as problems with human resource capacity, ownership, financing, marketing, and various other problems related to business management. As a result, SMEs find it difficult to compete with large companies (Abor, J. & Quartey, P., 2010). Therefore, strategies are needed to improve SME performance.

Performance is an indicator of the success of a business in achieving its goals. This performance reflects work results that are closely related to the organization's strategic goals, customer satisfaction, and contribution to the economy (Eniola & Abiodun, 2016). In running a business, SMEs need to have knowledge and skills in managing finances effectively. Therefore, financial literacy is very important for every entrepreneur. Various studies state that a person's ability to recognize and access financial institutions will influence business growth.

One possible strategy done to improve performance in a way effective is with increase understanding perpetrator SME business about knowledge finance. This is because literacy finance and behavior finance correlated with development SME business. This relationship shows that the more Good understanding someone to choose service finances, then SME performance will also increase in line with enhancement understanding about management financial performance in SMEs themselves.

Based on the results of the OJK survey in 2022, the financial literacy level index of the Indonesian people in 2022 reached 49.68%. This figure shows that there is a continued increase in public financial understanding compared to the previous year, namely in 2016 which only reached 29.70% and in 2019 which reached 38.03%. The level of financial literacy includes indicators of knowledge, attitudes, skills, beliefs and behavior. However, special attention is still needed for SMEs in increasing financial literacy considering the important role of SMEs in growth economy in Indonesia. The OJK survey in 2016 divided the national financial literacy level into conventional, sharia and mixed (composite) categories. The conventional financial literacy rate is 29.5%, sharia 8.1%, and composite 29.7%. The community with the highest average level of financial literacy is in DKI Jakarta, and the lowest is in West Papua (Strategi Nasional Keuangan Inklusif, 2018).

Literacy finance is something knowledge (knowledge), Skills skills) , confidence (confidence) that influences attitude (attitude) , and behavior finance behavior) somebody to improve the quality of decision making and financial management in order to achieve prosperity. Financial literacy skills are very important for SMEs to understand and apply various financial skills, such as

personal savings management, budgeting and investing. Apart from that, knowledge of financial principles and concepts is also important, especially in financial planning, debt management, and understanding changes in the value of money.

According to SNKI (National Financial Strategy Inclusive), Literacy level Finance in Indonesia is divided become four category, ie Well Literate, Sufficient Literate, Less Literate, and Not Literate. Well Literate refers to individuals or groups of people who already understand and are confident about financial institutions and products. They well understand the features, benefits, risks, rights and obligations related to financial products and services. They are also skilled in using these financial products and services. Sufficient Literacy is a group that understands and is confident about financial institutions and products and services, including their related features, benefits, risks, rights and obligations. However, they lack skills in using these financial products and services. Less Literate refers to this group of people who only understand about financial service institutions and their financial products and services. and Not Literate, which is a group that does not have knowledge and confidence in financial service institutions and financial products and services. They also lack skills in using financial products and services (Strategi Nasional Keuangan Inklusif, 2018).

Another factor that influences SME performance is financial behavior. The bad behavior of SMEs related to finance can be seen from the low motivation to optimize skills in managing business finances. This behavior is also reflected in thoughts that feel satisfied with existing performance. Many SMEs do not try to improve their financial management skills because they feel that their business performance is adequate and can still run normally without problems, even though in practice they do not carry out budget planning and financial supervision. If this bad attitude is allowed to persist, it will lead to a decline in SME performance and an inability to compete in the market. (Humaira, 2018).

Based on several phenomena that have been explained above from the results of previous research which form a GAP with this research, the researcher wishes to analyze and test the influence of financial literacy on the financial performance of SMEs in Indonesia, and the influence of financial behavior on the financial performance of SMEs in Indonesia with the research title: Influence Literacy Finance and Behavior Finance on SME Financial Performance: Analytical Study Regression in Indonesia.

Literature review

Research conducted by Rusnawati, Rusdi. R, and Saharuddin in their journal entitled "The Influence of Financial Literacy, Financial Behavior and Financial Attitudes on the Financial Performance of Micro, Small and Medium Enterprises in Makassar City". The research results show that most MSME owners are future-oriented, namely by setting good financial targets for the future. These findings also show that being oriented towards the future can encourage decision making and influence financial performance for a business (Rusnawati, Rusdi, & Saharuddin, Pengaruh Literasi Keuangan, Perilaku Keuangan dan Sikap Keuangan Terhadap Kinerja Keuangan Usaha Mikro, Kecil dan Menengah di Kota Makassar, 2022).

Research conducted by Muh. Fuad Alamsyah in his journal entitled "The influence of financial literacy and the quality of financial management on the financial performance of furniture SMEs in the city of Gorontalo". The research results show that Financial Literacy and Financial Management Quality simultaneously have a positive and significant influence on the Financial Performance of furniture SMEs in Gorontalo City. Partially, the results obtained show that financial literacy has a positive and significant influence on the financial performance of furniture SMEs in Gorontalo City (Alamsyah, 2020).

Research conducted by Salma, Laeli and Permata in a journal entitled The Influence of Financial Literacy, Financial Attitudes and Financial Management Behavior on MSME Performance. The research results show that financial literacy, financial attitudes and financial management behavior have a positive effect on the performance of MSMEs. The performance of MSMEs in this research is measured using sales growth. The sales growth used is the total sales in 2020 and 2021 (Mellinia, Budiarti, & Ulfah, 2023).

RESEARCH METHOD

Research design

This research uses approach quantitative and data collection using questionnaire survey research instruments. The population of this research includes actors in various SME sectors in Indonesia and the samples taken as many as 118 respondents. The sample was obtained using *nonprobability sampling*, namely saturated sampling. Saturated sampling is a sampling technique when all members of the population are used as samples. This happens often done when amount relatively small population or research wish to make generalization with very small error (Sugiyono, 2014). Data collection techniques were carried out with method divide questionnaire online via *google* forms.

Variable research and Definition Operational

Literacy Finance

Financial literacy is an individual's ability to understand and use financial knowledge in making smart and effective financial decisions. This includes an understanding of basic financial concepts such as savings, investments, loans, financial planning, as well as the ability to manage financial risks (Strategi Nasional Keuangan Inklusif, 2018).

Behavior Finance

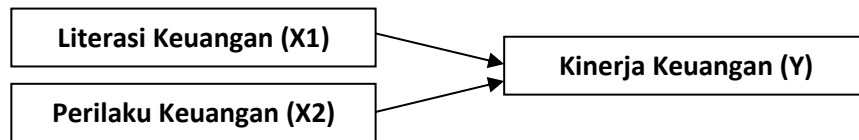
Financial behavior is the way individuals or groups make financial decisions, including how they save, invest, use financial products, and respond to financial risks. This includes everyday decisions such as spending, saving, investing, as well as long-term financial plans (A. Arrighett, A. Ninni, & N. Zamagni, 2021).

Financial performance

Financial performance refers to the ability of a business entity or organization to generate profits and manage its financial assets and liabilities efficiently. It

includes a number of financial metrics such as profitability, liquidity, solvency, and operational efficiency that are used to evaluate the financial health of an entity (Financial Performance Measurement of Manufacturing Small and Medium-Sized Enterprises: A Literature Review, 2021).

Framework Think Study



Hypothesis:

H1: Literacy finance influential positive and significant to performance finance.

H2: Behavior finance influential positive and significant to performance finance.

RESULTS AND DISCUSSION

Validity and Reliability Test

An indicator or question item is said to be valid if the value of calculated $r > r$ table, conversely if the r calculated $< r$ table indicates that the question item is invalid. The criteria for reliability testing are if the Cronbach's Alpha value is > 0.6 , it indicates that the research instrument is reliable, whereas if the Cronbach's Alpha value is < 0.6 , it indicates that the research instrument is not reliable. The results of the validity and reliability tests can be seen below.

Table 1. Results of Validity Test and Reliability Test of Financial Literacy Variables

Variable	Indicator	Validity test			Reliability Test	
		r count	r table	Note	Alpha	Note
Financial Literacy (X1)	X1. 1	0.803	0.180	Valid	0.844 > 0.6	Reliable
	X1. 2	0.707	0.180	Valid		
	X1. 3	0.719	0.180	Valid		
	X1. 4	0.368	0.180	Valid		
	X1. 5	0.705	0.180	Valid		

calculated r value of the financial literacy variable question items ranges from 0.368 to 0.803. The r table value for this research is 0.180. Calculated r value $> r$ table shows that all questions on the financial literacy variable are declared valid. The Cronbach's Alpha value obtained was 0.844. Cronbach's Alpha value > 0.6 indicates that all financial literacy variable instruments are declared reliable.

Table 2. Results of Validity Test and Reliability Test of Financial Behavior Variables

Variable	Indicator	Validity test			Reliability Test	
		r count	r table	Note	Alpha	Note
Financial Behavior (X2)	X2. 1	0.625	0.180	Valid	0.886 > 0.6	Reliable
	X2. 2	0.573	0.180	Valid		
	X2. 3	0.715	0.180	Valid		

The Influence of Financial Literacy and Financial Behavior on the Financial Performance of SMEs: A Regression Analysis Study in Indonesia

X2. 4	0,763	0.180	Valid
X2.5	0.725	0.180	Valid
X2.6	0.778	0.180	Valid
X2.7	0.617	0.180	Valid

calculated r value of the financial behavior variable questions ranges from 0.573 to 0.778. The r table value for this research is 0.180. Calculated r value > r table shows that all question items on the financial behavior variable are valid. The Cronbach's Alpha value obtained was 0.886. Cronbach's Alpha value > 0.6 indicates that all financial behavior variable instruments are declared reliable.

Table 3. Results of Validity Test and Reliability Test of Financial Performance Variables

Variable	Indicator	Validity test			Reliability Test	
		r count	r table	Note	Alpha	Note
Financial performance (Y)	Y. 1	0.515	0.180	Valid	0.702 > 0.6	Reliable
	Y. 2	0.498	0.180	Valid		
	Y. 3	0.297	0.180	Valid		
	Y. 4	0.555	0.180	Valid		
	Y. 5	0.517	0.180	Valid		

calculated r value of the financial behavior variable questions ranges from 0.297 to 0.555. The r table value for this research is 0.180. Calculated r value > r table shows that all question items on the financial performance variable are declared valid. The Cronbach's Alpha value obtained was 0.702. Cronbach's Alpha value > 0.6 indicates that all financial performance variable instruments are declared reliable.

Normality test

The normality test uses the *One - Sample Kolmogorov Smirnov - Z* test . The test criteria are if the significance value < 0.5 indicates that the confounding variable in the regression model has an abnormal distribution, conversely if the significance value > 0.05 indicates that the confounding variable in the regression model has normal distribution. The test results obtained a significance value of 0.200 so it can be concluded that the confounding variable in the regression model has a normal distribution because the significance value is > 0.05.

Hypothesis testing

Hypothesis testing uses multiple linear regression analysis. The results of the hypothesis test are presented in the following table:

Variable	Unstandardized Coefficients		Standardized Coefficients		t	Sig.
	B	Std. Error	Beta			

(Constant)	6,065	1,183		5,125	0,000
Financial literacy	0.209	0.088	0.262	2,370	0.019
Financial behavior	0.200	0.071	0.313	2,831	0.055
Significance of F	0,000				
<i>Adj. R Square</i>	0.270				

Dependent variable: Financial performance

F test

The F test tests whether all independent variables simultaneously influence the dependent variable. The test results obtained an F test significance value of 0.000. A significance value of <0.05 indicates that financial literacy and financial behavior simultaneously influence financial performance.

Coefficient of Determination Test

The coefficient of determination test is a test that describes the ability of the independent variable to explain changes in the dependent variable. The coefficient of determination test is carried out by looking at the *adjusted R square value*. The test results obtained an *adjusted R square value* of 0.270. The *adjusted R square value* of 0.270 indicates that financial literacy and financial behavior are able to explain changes in financial performance of 27% while the remaining 73% is explained by other factors.

t test

The t test results obtained a significant value for the financial literacy variable of 0.019 and a regression coefficient value of 0.209. The significance value <0.05 and the positive regression coefficient value indicate that financial literacy has a positive effect on financial performance. The results of the t test obtained a significant value for the financial behavior variable of 0.005 and a regression coefficient value of 0.200. The significance value <0.05 and the positive regression coefficient value indicate that financial behavior has a positive effect on financial performance.

Correlation relationship between variables

The research findings obtained state that there is a simultaneous positive and significant influence of the Financial Literacy (X1) and Financial Behavior (X2) variables on the Financial Performance variable (Y). The T test results show that financial literacy has a positive effect on financial performance and a positive regression coefficient value indicates that financial behavior has a positive effect on financial performance.

Based on the results obtained through field research, it is clear that SME owners who have good financial knowledge and good financial management can more easily make decisions regarding the growth of their financial performance. This explanation indicates that financial literacy and financial behavior are crucial factors in achieving company financial prosperity.

Financial literacy (X1) simultaneously has a significant effect on financial performance (Y)

The results of the hypothesis test carried out on the financial literacy variable from the results of the t test or significant test can be said to simultaneously show that the Financial Literacy variable (X1) has a positive and significant effect on the financial performance of SMEs in Indonesia.

The results of this research are in line with previous research conducted by Rusnawati, Rusdi and Saharuddin in their journal entitled "The Influence of Financial Literacy, Financial Behavior and Financial Attitudes on the Financial Performance of Micro, Small and Medium Enterprises in Makassar City" which said that the better the financial literacy of SME owners, the better you will be at setting financial targets in a future orientation so that you will be wiser in making decisions and influencing the financial performance of a business (Rusnawati, Rusdi. R., & Saharuddin, 2022).

The financial literacy skills possessed by an SME owner will be very helpful in improving the level of understanding in dealing with various financial problems which will enable them to process financial information and then make the right decisions for their business finances. Financial literacy is a person's level of knowledge and ability to manage finances for making decisions related to finance. Therefore, it has become mandatory for SMEs to have a level of understanding and ability in managing finances because the higher the literacy level of an SME, the higher the level of performance obtained. This was stated in Rahayu's research showing that financial literacy has a positive effect on SME performance.

Apart from that, financial literacy itself is used to measure how well business actors understand basic knowledge about finance, where researchers use statements to measure understanding of finance, ability to make business decisions, loans, financial planning and financial management skills. So, it can be said that increasing the financial literacy skills of SME owners will have a positive impact on the financial performance of SMEs.

Financial Behavior (X2) simultaneously has a significant effect on financial performance (Y)

Based on the research results obtained, the Financial Behavior variable (X2) has a significant positive influence on the Financial Performance variable (Y) in SMEs in Indonesia. This means that if financial behavior increases, financial performance will also increase. The test results on financial behavior variables from the results of the t test or simultaneous significant test show that financial behavior has a significant influence on the financial performance of SMEs in Indonesia.

The right financial decisions can produce high profitability, which is based on financial management, financial planning, as well as working capital and investment decisions. SMEs have an important role in improving the economy of a country like Indonesia. However, if someone has low financial skills or poor financial behavior, then this will have a negative impact on the future of the business.

According to Lusardi and Mitchell (Lusardi & Mitchell, O.S., 2014), individual financial performance is influenced by financial behavior which includes how a person manages expenses, saves, invests and makes financial decisions. Good financial behavior contributes to financial stability and economic prosperity. Meanwhile, in research by Mahzur Rahmad, et al. (Mahfuzur Rahman, Isa, Masud, Moniruzzaman, & Chowdhury, 2021) it is said that " *Financial behavior refers to the individual's ability to operate their finances to become successful in their life. It encompasses various financial management techniques and their impact on financial satisfaction and well-being.*"

CONCLUSION

The conclusions determined from the results of data analysis using the SPSS application program carried out on SME business actors in Indonesia regarding " The Influence of Financial Literacy and Financial Behavior on the Financial Performance of SMEs in Indonesia" are as follows: 1. Financial literacy has a positive effect on the financial performance of SMEs in Indonesia. 2. Financial behavior has a positive effect on the financial performance of SMEs in Indonesia.

REFERENCES

- A. Arrighetti, A. Ninni, & N. Zamagni. (2021, September). Understanding Financial Behavior: A Review of Financial Literacy, Financial Socialization, and Financial Inclusion. *International Review of Financial Analysis*, 85 .
- Abor, J., & Quartey, P. (2010, May). Issues in SME Development in Ghana and South Africa. *International Research Journal of Finance and Economics* (39), 218-227. Retrieved from <http://www.eurojournals.com/finance.htm>
- Alamsyah, MF (2020). The influence of financial literacy and the quality of financial management on the financial performance of furniture SMEs in the city of Gorontalo. *Journal of Economics, Management, and Accounting*, 22 (2), 245-255.
- Eniola, & Abiodun, A. (2016, April). Financial literacy and SME firm performance. *International Journal of Research Studies in Management*, 5 (1), 31-43. doi:10.5861/ijrsm.2015.1304
- Financial Performance Measurement of Manufacturing Small and Medium-Sized Enterprises: A Literature Review. (2021). *International Journal of Engineering Business Management*, 13 .
- Humaira, I. (2018). The Influence of Financial Knowledge, Financial Attitudes, and Personality on Financial Management Behavior among MSMEs in the Batik Craft Center of Bantul Regency. . *Nominal, Barometer of Accounting and Management Research* .
- Lusardi, A., & Mitchell, O. S. (2014). The Economic Importance of Financial Literacy: Theory and Evidence. *Journal of Economic Literature*, 1 (5±44), 52.
- Mahfuzur Rahman, Isa, C.R., Masud, M., Moniruzzaman, M., & Chowdhury, N. (2021, November). The role of financial behavior, financial literacy, and

- financial stress in explaining the financial well-being of the B40 group in Malaysia. *Future Business Journal*, 52. doi:<https://doi.org/10.1186/s43093-021-00099-0>
- Mellinia, SP, Budiarti, L., & Ulfah, P. (2023). The Influence of Financial Literacy, Financial Attitudes, and Financial Management Behavior on MSME Performance. *Journal of Accounting and Finance Research*, 11 (3), 549-568. Retrieved from <https://ejournal.upi.edu/index.php/JRAK/>
- Rusnawati, Rusdi, & Saharuddin. (2022). The Influence of Financial Literacy, Financial Behavior and Financial Attitudes on the Financial Performance of Micro, Small and Medium Enterprises in Makassar City. *Journal of Management & Business*, 5 (2), 253.
- Rusnawati, Rusdi. R., & Saharuddin. (2022). The Influence of Financial Literacy, Financial Behavior and Financial Attitudes on the Financial Performance of Micro, Small and Medium Enterprises in Makassar City. *SEIKO: Journal of Management & Business*, 253. doi:<https://doi.org/10.37531/sejaman.v5i2.208>
- Shefrin, H., & Statman, M. (1985). The disposition to sell winners too early and ride losers too long: Theory and Evidence. *Journal of Finance*, 40 (3), 777-790. doi:10.1111/j.1540-6261.1985.tb05002.x
- National Strategy for Inclusive Finance*. (2018, February 10). Taken again from FINANCIAL LITERACY: <https://snki.go.id/literasi-keuangan/>
- Sugiyono. (2014). *Quantitative Research Methods and R&D*. Bandung: Alfabeta.