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The Influence of Business Owner Characteristics, Financial Literacy, and Financial Inclusion on Business Capital Choice Decision and its Implications for Business Growth

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ABSTRACT

This study analyzes the influence of business owner characteristics, financial literacy, and financial inclusion on capital structure decisions and their implications for business growth in Micro, Small, and Medium Enterprises (MSMEs). Using a quantitative approach, data were collected through questionnaires distributed to 208 MSME owners in the Jabodetabek area who are members of the Ilmukeuangan.com Alumni Community, selected through purposive sampling with criteria of having operated for at least one year. The research variables include entrepreneur characteristics, financial literacy, and financial inclusion as independent variables, capital structure as a mediating variable, and business growth as the dependent variable. Data analysis was conducted using Structural Equation Modeling (SEM) through SmartPLS 3.0. The results show that the research model has moderate predictive strength with R-Square values of 0.571 for business growth and 0.565 for capital structure, and a Goodness of Fit (GoF) value of 0.594 indicating a robust model. Of the six direct effect hypotheses tested, four were accepted and two were rejected. Financial literacy (T-stat: 5.421) and financial inclusion (T-stat: 9.452) significantly influence capital structure, while entrepreneur characteristics do not have a significant effect. For business growth, entrepreneur characteristics (T-stat: 7.725) and financial inclusion (T-stat: 3.759) show significant direct effects, but capital structure does not significantly influence business growth. The mediation test results indicate that capital structure significantly mediates the relationship between financial literacy and financial inclusion on business growth, but does not mediate the relationship between entrepreneur characteristics and business growth.

KEYWORDS *entrepreneur characteristics, financial literacy, financial inclusion, capital structure, business growth*

INTRODUCTION

Micro, Small, and Medium Enterprises (*MSMEs*) are the backbone of Indonesia's economy, making a highly significant contribution to the national economic structure (Fauji, Pratikto, dan Handayati 2022; Hisyam dan Fitriyah 2024; Pandey dan Gupta 2020; Soetjipto dkk. 2023; Utami 2023). Based on data from the Financial Services Authority (*OJK*, 2023), *MSMEs* contribute 60.51% to the total national Gross Domestic Product (*GDP*) and account for 99.99% of all business actors in Indonesia, with a total of 64 million business units. In terms of job creation, *MSMEs* absorb 117 million workers, equivalent to 97% of the total national workforce, positioning them as key drivers of employment and poverty alleviation (Akgül dkk. 2022; Ali dkk. 2023; Apata 2019; Okonkwo, NWAOSUAGWU, dan OKONKWO-EMEGHA 2018; Syukri 2020). Furthermore, *MSMEs* contribute 15.7% of Indonesia's total non-oil and gas exports and represent 60% of total national investment (*OJK*, 2023), underscoring their strategic role in promoting inclusive and sustainable economic growth. The complexity of the

challenges faced by *MSMEs* is illustrated in *Figure 1*, which outlines the various issues they encounter.

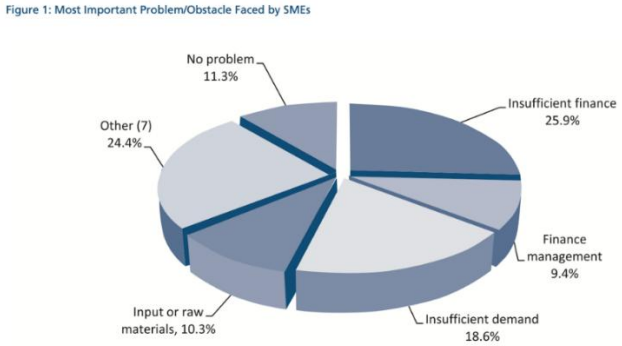

Figure 1. Overview of MSME problems

Source: International Finance Corporation (IFC) (2022)

Despite their substantial contribution, *MSMEs* in Indonesia face various structural challenges that hinder their development. One of the primary issues is the difficulty in *upgrading* or transitioning from micro to larger businesses. Data from the Ministry of Cooperatives and *MSMEs* (2022) shows that 99.6% of *MSMEs* remain at the micro level, a condition that has not significantly changed over the past decade. Other challenges include the low adoption of digital technology—only 25.5% of *MSMEs* use digital platforms for marketing (Bank Indonesia, 2022); limited access to global markets, with just 4.1% of *MSMEs* integrated into the Global Value Chain (Bank Indonesia, 2022); and the dominance of the trade sector (46.7%), which has not been able to generate high added value (Central Statistics Agency, 2016).

Access to formal financial services is another critical obstacle to *MSME* growth. Data indicates that only 32.17% of total banking credit accounts are held by *MSMEs* (OJK, 2023), with loans disbursed to *MSMEs* comprising just 21.8% of total national credit (Bank Indonesia, 2021) (Aizat dan Nazjmi 2019; Pham dan Nguyen 2024; Sharma dan Shrivastava 2021). A survey by the International Finance Corporation (*IFC*, 2022) of 602 small-medium enterprises revealed that only 10% of *MSMEs* had taken out loans in the preceding 12 months. Their preferences in selecting financial services centered on four key characteristics: low costs, speedy decision-making, flexible lending policies, and minimal documentation requirements, as shown in *Figure 2*. Limited access to financing has been further exacerbated by the impact of the *COVID-19* pandemic. A survey by the Mandiri Institute (2021) shows that nearly 30%

of *MSMEs* closed their businesses due to capital constraints, while the reasons for the decline in *MSME* revenue are illustrated in *Figure 3*.

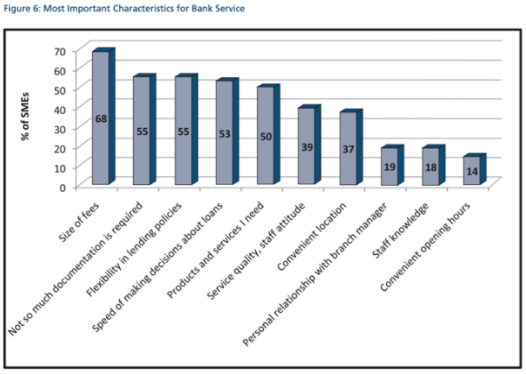

Figure 2. Characteristics for gaining banking access

Source: Boston Consulting Group (BCG) (2022)

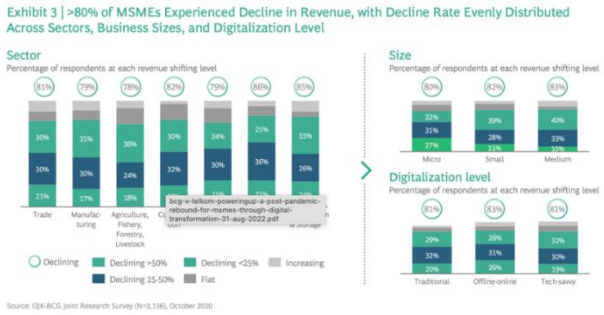

Figure 3. Causes of declining MSME revenue

Source: Boston Consulting Group (2022)

The low level of financial literacy is a fundamental factor that exacerbates the challenges faced by *MSMEs* in accessing and managing financial resources. According to a World Bank survey, Indonesia's financial literacy rate is only 20%, significantly lower than that of other *ASEAN* countries such as the Philippines (27%), Malaysia (66%), Thailand (73%), and Singapore (98%). Although *OJK* data (2022) indicates an increase in the financial literacy index to 49.68% from 29.70% in 2016, this figure still reflects a substantial gap when compared to the financial inclusion rate of 85.10%. Low financial literacy leads *MSMEs* to struggle with understanding financial products and services, creating sound financial plans, and making optimal capital structure decisions to support business growth (Abor & Quartey, 2010).

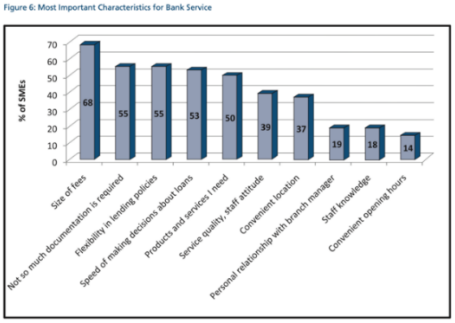

Figure 4. Characteristics for gaining banking access

Source: Boston Consulting Group (BCG) (2022)

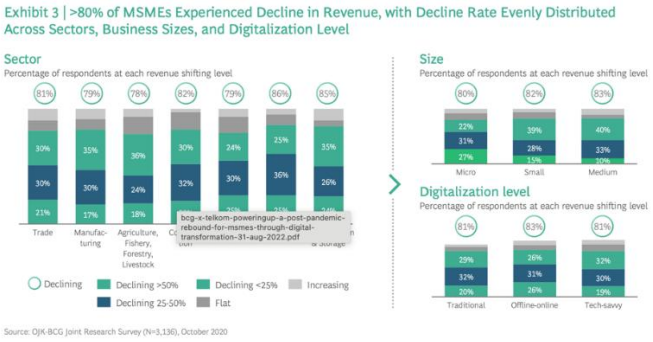

Figure 5. Causes of declining MSME revenue

Source: Boston Consulting Group (2022)

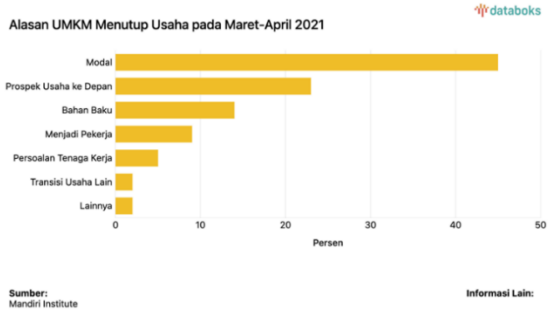

Figure 6. Reasons for MSMEs to close their businesses

Source: Mandiri Institute (2021)

The complexity of the challenges faced by *MSMEs* underscores the need for a deeper understanding of the factors influencing their capital structure and business growth decisions. The individual characteristics of business owners, financial literacy levels, and access to financial services (*financial inclusion*) are believed to play a crucial role in determining the success of *MSMEs* in managing capital and achieving sustainable growth. Azis' research (2024), in *Listen and Design on Micro, Small, and Medium Enterprises*, highlights the disconnect between government-designed policies and the actual needs of *MSMEs*, which stems from a lack of in-depth understanding of their unique conditions and requirements. However, research that integrates these three factors in the context of Indonesian *MSMEs* remains limited. Therefore, empirical studies are necessary to explore the causal relationship between entrepreneurial characteristics, financial literacy, and *financial inclusion* on capital structure decisions and their impact on *MSME* business growth in Indonesia.

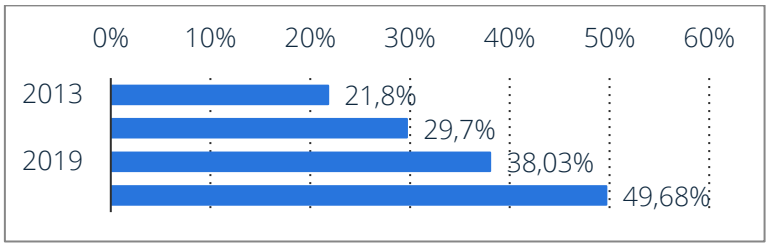

Figure 7. Financial Literacy Data in Indonesia

Source: Statista Dan katadata.id (2023)

Based on the background description, the formulation of this research problem is as follows: First, how do entrepreneurial characteristics—such as age, education, entrepreneurial experience, independence, and managerial competence—affect business capital decisions? Second, to what extent does financial literacy, which includes understanding financial statements, cost management, budgeting, and performance measurement, influence business capital decisions? Third, how does financial inclusion, including access to formal financial services such as *fintech*, *crowdfunding*, and financial institutions, affect venture capital decisions? Fourth, how do business capital decisions impact business growth, including revenue, asset growth, and market expansion?

The purpose of this study is to analyze the influence of entrepreneurial characteristics on business capital decision-making, as well as to measure the influence of financial literacy on capital decisions. In addition, this study aims to analyze the influence of financial inclusion on business capital decisions and to identify the relationship between capital decisions and business growth.

This research has several practical implications. For *MSME* business owners, it provides insights into the factors influencing capital selection decisions, enabling more informed and appropriate choices. For governments and policymakers, it offers data to design policies that support improved financial literacy and inclusion. Financial institutions will also benefit by gaining a better understanding of the needs and characteristics of *MSME* entrepreneurs, allowing them to develop more suitable financial products. For academics and researchers, this study contributes to the body of knowledge on the influence of individual characteristics and financial literacy on capital decisions. Lastly, for the general public, it raises awareness about the importance of financial literacy in supporting the success of small and medium enterprises.

METHOD

The methodology of this study employs a quantitative approach, with data collected through surveys using questionnaires distributed to 200 *MSME* owners in the Greater Jakarta area who are members of the *Ilmukeuangan.com* Alumni Community. Respondents were selected using the *purposive sampling* method, with the criterion of having operated their business for at least one year. The research objects include *MSMEs* from various sectors such as trade, manufacturing, and services, with a focus on examining the influence of business owners' individual characteristics (education level, business experience, social/professional networks, and business motivation) on financial literacy, financial inclusion, capital decisions, and business growth.

The independent variables include entrepreneurial characteristics (personal attributes such as education, work experience, risk orientation, and managerial ability), financial literacy (the ability to understand and use financial information in business management), and financial inclusion (access to formal financial services such as banking and digital financing). Capital structure functions as a *mediator variable*, reflecting the composition between debt and equity in business funding, while business growth serves as the *dependent variable*, measured through revenue growth, market expansion, and asset enhancement.

Data was collected using a questionnaire with a *Likert* scale of 1–5 and ratio-based items, and analyzed using path analysis techniques through *Structural Equation Modeling* (*SEM*) to examine the direct, indirect, and total relationships between variables, as well as the mediating role of capital structure in the relationship between the independent variables and business growth. The data preparation stages included a validity test using *Confirmatory Factor Analysis* (*CFA*), a reliability test with *Cronbach's Alpha* ($\alpha \geq 0.7$), a normality test using *Kolmogorov-Smirnov* or *Shapiro-Wilk* ($\alpha \geq 0.05$), and a multicollinearity test using the *Variance Inflation Factor* (*VIF* ≤ 10). Model fit was assessed using *Chi-Square* ($\alpha \geq 0.05$), *RMSEA* (≤ 0.08), *CFI* and *GFI* (≥ 0.90), to ensure alignment between the model and empirical data prior to hypothesis testing and mediation analysis using *bootstrapping*.

RESULTS AND DISCUSSION

Data Quality Test

Before distributing the questionnaire thoroughly to 208 respondents, the examiner conducted a trial questionnaire on 208 respondents to ensure that each statement item was valid. With a probability value **of α = 0.05** and the minimum requirement of an instrument is declared valid if r is calculated as greater than r of the table. Here is the calculation of the r table:

df (degree of freedom) = N – 2
= 208 – 2
= 206

Looking at the r table with a **value of df 206** and **a significance of 0.05**, it is found that **the value of r calculated is 0.1361.** To test the validity of the data quality, SPSS 22 software was used. The results showed that all statement items for each variable—Entrepreneur Characteristics (X1), Financial Literacy (X2), Financial Inclusion (X3), Capital Structure (Y), and Business Growth (Z)—had an rCount value greater than the rTable threshold of 0.1361. This indicates that all items were valid and suitable for further testing, as confirmed by the questionnaire processing results. The validity tests for each variable consistently demonstrated that the calculated coefficients (rCount) exceeded the required threshold, ensuring the reliability of the data. For instance, variables like Financial Literacy (X2) and Business Growth (Z) showed particularly high validity scores, with some items reaching above 0.85. This confirms that the questionnaire items effectively measured the intended constructs, making the data valid and reliable for subsequent analysis.

Reality Test

Reliability test is a tool to measure a questionnaire which is an indicator of variables. The reliability test in this study uses the *Cronbach's Alpha*. The probability criterion according to Nunnally (1994) in the book Ghozali (2016) states that *Cronbach's alpha* The good is above 0.70 while the range of 0.50 to 0.60 is still considered good. The calculation of the reliability coefficient of the measuring instrument in this study uses the SPSS 24 program.

The results of the Tax Administration Modernization test, Taxpayer awareness and corporate taxpayer compliance are as follows.

Table 1. Results of the Reality Test

Variable	*Cronbach 'Alpha*	*No of Items*	Information
Characteristics of Entrepreneurs (X1)	0,688	8	Reliable
Financial Literacy (X2)	0,887	4	Reliable
Financial Inclusion (X3)	0,706	4	Reliable
Capital Structure (Y)	0,725	3	Reliable
Business Growth (Z)	0,854	5	Reliable

Source: Questionnaire Processing Results

Based on table 1, it shows that from the results of the feasibility test:

1. X1 also gives results that exceed *Cronbach's alpha* which is still considered good, which is in the range of 0.50 to 0.60, which is 0.688.
2. X2 also gives results that exceed *Cronbach's good alpha*, which is above 0.7, which is 0.887.
3. X3 also gives results that exceed *Cronbach's good alpha* which is above 0.7 which is 0.706.
4. Y also gives results that exceed *Cronbach's alpha* which is good which is above 0.7 which is 0.725.
5. The Z variable gives a result exceeding *Cronbach's alpha* which is good above 0.7 which is 0.854.

Descriptive Analysis

The following is a description of the characteristics of the respondents in this study based on gender, age, last education, business field, ownership status, length of business activities.

Table 2. Characteristics of Respondents by Gender and Age

	Category	Sum	Percentage (%)
Gender	Man	100	48
	Woman	108	52
	Total	208	100
Age	18 -26 Years	28	13
	27 -35 Years	59	28
	36 -44 Years	63	30
	> 44 years old	58	28
	Total	208	100

Based on the table above, it was obtained from 208 gender and age respondents' answers. For gender, most of them are women by 52%, and for the age of most of them are vulnerable at the age of 36-44 years, it can be concluded that business actors who actively participate in training at Ilmukeuangan.com.

Table 3. Characteristics of Respondents based on last education and business field

	Category	Sum	Percentage (%)
Final Education	SMP	2	1
	High School or Equivalent	25	12
	Diploma (D3)	23	11
	S1	114	55

	Category	Sum	Percentage (%)
	S2	40	19
	S3	4	2
	Total	208	100
Business Field	Food & Beverage	48	23
	Fashion	12	6
	Finance	42	20
	Health	20	10
	Service	32	15
	Farm	4	2
	Perkebunan	2	1
	B2B	18	9
	Other	30	14
	Total	208	100

Based on the table above, obtained from 208 respondents, there were 114 respondents with S1 Education level (at most), 40 people with S2 level, 23 people with Diploma Education level, 25 people with high school education level or equivalent and 3 respondents with S3 education level. So it can be concluded that the level of education is not an obstacle for a person to continue to have a business. Based on the business fields that are run with the majority of 23% and 20% engaged in culinary and financial sectors, it can be concluded that the food or beverage business is the most in demand.

Table 4. Characteristics of Respondents based on Length of Business and Number of Employees

	Category	Sum	Percentage (%)
Long Business	Less than 1 year	34	16
	1 – 5 Years	80	38
	5 – 10 Years	50	24
	More than 10 years	44	21
	Total	208	100

Based on the table above, for the length of time the business was run from 208 respondents, as many as 80 business actors had been running their businesses for 1 to 5 years, 50 business actors had been running their businesses for 5-10 years, 34 business actors had been running their businesses for less than 1 year and as many as 44 business actors had been running their businesses for more than 10 years. So it can be concluded that the majority of business actors have been running their businesses for 1 to 5 years.

To facilitate the research of the respondents' answers, the following research criteria were made:

a. Strongly Agree (SS) : weighted 5
b. Agree (S) ; weighted 4
c. Hesitation (RR) : weighted 3
d. Disagree (TS) : weighted 2
e. Strongly Disagree (STS) : weighted 1

The respondent's answers are then calculated based on the actual score formula and compared to the ideal score to get a percentage value from the respondent's response.

Meanwhile, the ideal score is obtained through the acquisition of the highest score multiplied by the number of respondents. The calculation of the score percentage is described in the formula as follows:

$$\%\, Skor\ total\ = \frac{Skor\ aktual}{skor\ ideal} x\ 100\%$$

To facilitate the research of the respondents' answers, the following research criteria were made:

Table 5. Respondent response score criteria

Yes	% Total Score	Criteria
1	0%-20%	Very Less
2	21%-40%	Not Good
3	41%-60%	Enough
4	61%-80%	Good
5	81%-100%	Excellent

Source: Ridwan and Kuncoro (2014)

The following is a description of the results of the research on 208 respondents and the results of the distribution of a questionnaire consisting of 5 indicators including 8 questions that were disseminated.

Table 6. Distribution of Respondent Answers on Entrepreneur Characteristics (X1)

Statement Items	Number of Respondents					Total F	Shoes		%
	STS	TS	RR	S	SS		Skor Current	Ideal Score	
	F	F	F	F	F				
P1	8	18	40	62	80	208	812	1040	78
P2	2	5	12	85	104	208	908	1040	87
P3	2	10	45	100	51	208	812	1040	78
P4	4	23	56	90	35	208	753	1040	72
P5	5	12	58	71	62	208	797	1040	77
P6	20	41	87	40	20	208	623	1040	60
P7	1	1	20	55	131	208	938	1040	90
P8	0	3	29	88	88	208	885	1040	85
Total							**6528**	**8320**	**78**

Based on the results of the calculation above, the respondents' response regarding Entrepreneur Characteristics (X1) is 78%. Showing in the table above about the respondent response score of 61%-80% is said to be good, so it can be concluded that the Entrepreneur Characteristics have been produced "good" because the score criteria exceed 61%.

The following is a description of the results of the research on 208 respondents and the results of the distribution of questionnaires consisting of 4 indicators including 4 questions that were distributed

Table 7. Financial Literacy Respondent Answer Distribution (X2)

Statement Items	Number of Respondents					Total F	Shoes		%
	STS	TS	RR	S	SS		Skor Current	Ideal Score	
	F	F	F	F	F				
P9	10	20	51	74	53	208	764	1040	73
P10	10	23	64	73	38	208	730	1040	70
P11	3	28	57	85	35	208	745	1040	72
P12	19	31	62	62	34	208	685	1040	66
Total							**2924**	**4160**	**70**

Based on the results of the calculation above, the respondents' response regarding Financial Literacy (X2) is 70%. Showing in the table above about the respondent's response score of 61%-80% is said to be good, so it can be concluded that Financial Literacy (X2) has been produced "good" because the score criteria exceeds 61%.

Financial Inclusion Respondent Answer Distribution (X3)

The following is a description of the results of the research on 208 respondents and the results of the distribution of questionnaires consisting of 4 indicators including 4 questions that were distributed.

Table 8. Financial Inclusion Respondent Answer Distribution (X3)

Statement Items	Number of Respondents						Shoes		%
	STS	TS	RR	S	SS	Total F	Skor Current	Ideal Score	
	F	F	F	F	F				
P13	23	29	62	62	32	208	675	1040	65
P14	60	25	42	50	31	208	591	1040	57
P15	99	33	45	18	13	208	437	1040	42
P16	67	33	60	34	14	208	519	1040	50
Total							**2222**	**4160**	**53**

Based on the results of the calculation above, the response of the Financial Inclusion (X3) respondents is 53%. Showing in the table above the respondent response score of 41%-60% is said to be sufficient, so it can be concluded that Financial Inclusion (X3) has been produced "sufficient" because the score criteria exceeds 41%.

The following is a description of the results of the research on 208 respondents and the results of the distribution of a questionnaire consisting of 3 indicators including 3 questions that were distributed.

Table 9. Distribution of Respondents' Answers Capital Structure (Y)

Statement Items	Number of Respondents						Shoes		%
	STS	TS	RR	S	SS	Total F	Skor Current	Ideal Score	
	F	F	F	F	F				
P17	63	44	66	24	11	208	500	1040	48
P18	41	27	48	63	29	208	636	1040	61
P19	6	11	58	72	61	208	795	1040	76
Total							**1931**	**3120**	**62**

Based on the results of the calculation above, the respondents' response regarding Capital Structure (Y) is 62%. Showing in the table above about the respondent's response score of 61%-80% is said to be good, so it can be concluded that Financial Literacy (X2) has been produced "good" because the score criteria exceeds 61%.

The following is a description of the results of the research on 208 respondents and the results of the distribution of the questionnaire consisting of 3 indicators including 5 questions that were distributed.

Table 10. Distribution of Business Growth Respondent Answers (Z)

Statement Items	Number of Respondents					Total F	Shoes		%
	STS	TS	RR	S	SS		Skor Current	Ideal Score	
	F	F	F	F	F				
P20	7	7	97	73	24	208	724	1040	70
P21	8	7	81	79	33	208	746	1040	72
P22	14	17	66	80	31	208	721	1040	69
P23	28	32	76	51	21	208	629	1040	60
P24	11	11	102	59	25	208	700	1040	67
Total							**3520**	**5200**	**68**

Based on the results of the calculation above, the respondents' response regarding Business Growth (Z) is 68%. Showing in the table above about the respondent's response score of 61%-80% is said to be good, so it can be concluded that Business Growth (Z) has been produced "good" because the score criteria exceed 61%.

Data Processing

Normality Test

Normality tests are performed to ensure that the distribution of data follows a normal distribution pattern, which is one of the important assumptions in statistical analysis. This test is based on the *Central Limit Theorem* put forward by Gaus (1809), which states that the sample distribution will be close to the normal distribution if the sample size is large enough. In the context of research, the normality test aims to validate the feasibility of the data before further analysis is carried out. The technique used for this test is *Kolmogorov-Smirnov* or *Shapiro-Wilk*, where a significance value of ≥ 0.05 indicates that the data is normally distributed.

Table 11. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		208
Normal Parametersa,b	Mean	,0000000
	Hours of deviation	1,30992645
Most Extreme Differences	Absolute	,051
	Positive	,051
	Negative	-,045
Test Statistic		,051
Asymp. Sig. (2-tailed)		,200c,d

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Based on the table above, the *Kolmogorov-Smirnov test* where the significance value ≥ 0.05 indicates that the data is normally distributed to be about 0.200.

Multicollinearity Test

According to Ghozali (2018), the multicollinearity test aims to reveal whether there is a strong relationship between independent variables in the regression model. Therefore, to find out whether the existence or absence of multicollinearity can be seen from the Value Inflation Factor (VIF), if the value of VIF > 10 and the value of tolerance < 0.1 are obtained, then it can be said that in the test there is multicollinearity between independent variables, if the value of VIF < 10 and the value of the tolerance ≥ 0.1 are obtained, then it can be concluded that in the test there is no multicollinearity.

Table 12. Multicollinearity Test

Coefficients[a]								
Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Itself.	Tolerance	BRIGHT
1	(Constant)	3,357	,625		5,371	,000		
	Characteristics of Entrepreneurs	,039	,028	,101	1,403	,162	,643	1,556
	Financial Literacy	,036	,036	,075	1,000	,319	,595	1,681
	Financial Inclusion	,232	,039	,396	5,993	,000	,758	1,319
	Business Growth	,061	,031	,145	1,957	,052	,603	1,658
a. Dependent Variable: Structure Modal								

From the table above, the value of VIF < 10 and the value of tolerance ≥ 0.1 can be obtained, so it can be concluded that in the test there is no multicollinearity.

Measurement Test Results *(Outer Model)*

The measurement test or outer model aims to assess the validity and reliability of the model. This researcher uses an outer model with reflective indicators and can be evaluated by conducting *convergent validity, discriminant validity* and *composite reliability* tests as well as *Cronbach alpha*. Here is the outer model test.

Convergent Validity result

In the *convergent validity test* of reflective indicators with the Smart PLS 3.0 program, it can be seen from the loading factor value for each construct indicator. If the correlation between the reflective size and the construct to be tested gives a value of more than 0.70 then the reflective measure is considered to be of excellent quality. If the research still wants to be developed, then the loading value in the range of 0.50 to 0.60 is still considered good.

Tabel 13. Outer Loading

	Financial Inclusion (X3)	Characteristics of Entrepreneurs (X1)	Financial Literacy (X2)	Business Growth (Z)	Capital Structure (Y)
X1.1		0,562			
X1.2		0,672			
X1.3		0,681			

	Financial Inclusion (X3)	Characteristics of Entrepreneurs (X1)	Financial Literacy (X2)	Business Growth (Z)	Capital Structure (Y)
X1.4		0,675			
X1.5		0,693			
X1.6		0,222			
X1.7		0,304			
X1.8		0,647			
X2.1			0,845		
X2.2			0,930		
X2.3			0,836		
X2.4			0,851		
X3.1	0,711				
X3.2	0,745				
X3.3	0,751				
X3.4	0,714				
Y.1					0,759
Y.2					0,851
Y.3					-0,192
Z.1				0,798	
Z.2				0,767	
Z.3				0,841	
Z.4				0,713	
Z.5				0,878	

Based on the table above, the processing results are using SmartPLS 3.0. The outer model value meets *the Convergent validity* which must be above 0.70 and the loading value in the range of 0.50 to 0.60 which is still considered good, the indicator values that are not good are X1.6; X1.7 and Y.3. Indicators that have a poor value will be removed.

Table 14. Outer Loading Modification

	Financial Inclusion (X3)	Characteristics of Entrepreneurs (X1)	Financial Literacy (X2)	Business Growth (Z)	Capital Structure (Y)
X1.1		0,567			
X1.2		0,684			
X1.3		0,694			
X1.4		0,678			
X1.5		0,696			
X1.8		0,640			
X2.1			0,845		
X2.2			0,930		
X2.3			0,836		
X2.4			0,852		

	Financial Inclusion (X3)	Characteristics of Entrepreneurs (X1)	Financial Literacy (X2)	Business Growth (Z)	Capital Structure (Y)
X3.1	0,710				
X3.2	0,745				
X3.3	0,751				
X3.4	0,714				
Y.1					0,760
Y.2					0,852
Z.1				0,797	
Z.2				0,766	
Z.3				0,841	
Z.4				0,715	
Z.5				0,878	

The table above is the result of modification of the previous results by removing indicators that have poor values. It was retested and produced a slight change in the value of these indicators and was said to be very good because it had a value above
0.70 and loading values in the range of 0.50 to 0.60 which are still considered good.

Discriminant Validity Result

The discriminant validity test with reflective indicators can be seen from the AVE value. The good discriminant validity test is when the AVE value of 96 construct is more than 0.50 (Ghozali & Latan, 2020). The following is a discriminant *validity test* using the AVE value.

Table 15. AVE Value

	Mean Variance Extracted (AVE)
Financial Inclusion (X3)	0,533
Characteristics of Entrepreneurs (X1)	0,538
Financial Literacy (X2)	0,750
Business Growth (Z)	0,642
Capital Structure (Y)	0,651

Based on the table above, the AVE value for each variable of Entrepreneur Characteristics (X1); Financial Literacy (X2); Financial Inclusion (X3); Business Growth (Z) and Capital Structure (Y) have a value of more than 0.50.

To determine whether a construct has a good *discriminant*, it is necessary to ensure the root value of the AVE, the loading value of the desired construct must have a higher loading value than the value of other constructs.

Table 16. AVE Root Values

	Financial Inclusion (X3)	Characteristics of Entrepreneurs (X1)	Financial Literacy (X2)	Business Growth (Z)	Capital Structure (Y)
Financial Inclusion (X3)	0,730				
Characteristics of Entrepreneurs (X1)	0,333	0,662			
Financial Literacy (X2)	0,402	0,561	0,866		
Business Growth (Z)	0,446	0,538	0,539	0,801	
Capital Structure (Y)	0,599	0,230	0,317	0,313	0,807

Based on the results above, each *desired construct loading* has a higher value than other construct loading. Entrepreneur Characteristics (X1) have a value of 0.662 higher than other constructs, Financial Literacy (X2) has a value of 0.866 higher than other constructs, Financial Inclusion (X3) has a value of 0.730 higher than other constructs, Capital Structure (Y) has a value of 0.807 higher than other constructs and also business growth (Z) which has a value of 0.801. Therefore, it is explained that this research has met the terms and conditions of *discriminant validity testing.*

Reliability Results

The construct reliability test can be measured through 2 criteria, namely *Composite reliability* and *Cronbach alpha.* If the value is more than 0.70, then the data is declared reliable. Here are the test results of *Composite reliability* and *Cronbach alpha.*

Table 17. the test results of Composite reliability and Cronbach alpha

	Cronbach's Alpha	Composite Reliability
Financial Inclusion (X3)	0,709	0,820
Characteristics of Entrepreneurs (X1)	0,745	0,823
Financial Literacy (X2)	0,888	0,923
Business Growth (Z)	0,859	0,899
Capital Structure (Y)	0,769	0,788

Based on the results of *the Composite reliability* and *Cronbach alpha tests* above, each variable has a value of more than 0.70. So it can be concluded that it is reliable.

Structural Model Results (Inner Model)

The Structural Model *Test (Inner Model)* is one of the evaluation models carried out in the Partial Least Square analysis. In this analysis, the purpose is to predict whether or not there is a relationship between latent variables. The following is a model path diagram in the inner model in this study:

R-Square Test Results

Table 18. Results of Hypothesis Test and Model Analysis

Analysis Aspect	Result	Interpretation
R-Square	Business Growth: 0.571 Capital Structure: 0.565	Medium (moderate) category
Stone-Geisser Q²	0,541	Pretty good model (54% contributions)
Goodness of Fit (GoF)	0,594	Robust/robust model (>0.38)
Direct Hypothesis		
H1: Characteristics → Capital Structure	T-stat: 0,175; p-value: 0,861	**Rejected**
H2: Financial Literacy → Capital Structure	T-stat: 5,421; p-value: 0,000	**Accepted**
H3: Financial Inclusion → Capital Structure	T-stat: 9,452; p-value: 0,000	**Accepted**
H4: Capital Structure → Business Growth	T-stat: 0,693; p-value: 0,488	**Rejected**
H5: Characteristics → Business Growth	T-stat: 7,725; p-value: 0,000	**Accepted**
H6: Financial Inclusion → Business Growth	T-stat: 3,759; p-value: 0,000	**Accepted**
Mediation Effect		
Financial Inclusion → Capital Structure → Growth	T-stat: 1,676; p-value: 0,000	Significant mediation
Financial Literacy → Capital Structure → Growth	T-stat: 1,654; p-value: 0,000	Significant mediation
Characteristics → Capital → Growth Structure	T-stat: 0,999; p-value: 0,499	Insignificant

The results of the analysis showed that the research model had moderate predictive power with an R-Square value of 0.571 for Business Growth and 0.565 for Capital Structure, and a Goodness of Fit (GoF) value of 0.594 which indicates a robust model. Of the six direct influence hypotheses tested, four hypotheses were accepted and two were rejected. Financial literacy (T-stat: 5.421) and financial inclusion (T-stat: 9.452) were shown to have a significant effect on capital structure, while the characteristics of entrepreneurs did not have a significant effect (T-stat: 0.175; p-value: 0.861). On business growth, the characteristics of entrepreneurs (T-stat: 7.725) and financial inclusion (T-stat: 3.759) showed a significant direct influence, but the capital structure had no significant effect (T-stat: 0.693; p-value: 0.488). The results of the mediation test showed that capital structure mediated the relationship between financial literacy and financial inclusion on business growth significantly, but did not mediate the relationship between entrepreneur characteristics and business growth. These findings indicate that financial literacy and inclusion play a more dominant role in determining the capital structure and business growth of MSMEs compared to the individual characteristics of entrepreneurs.

CONCLUSION

Based on the research on the influence of business owner characteristics, financial literacy, and financial inclusion on business capital choice decisions and their implications for

business growth, it can be concluded that owner characteristics—such as age and education—have a significant impact on the selection of capital sources. Additionally, strong financial literacy enables entrepreneurs to better understand financial statements and risks, while access to formal financial services enhances the flexibility of capital selection. Appropriate capital decisions directly influence capital structure and business growth, with *MSMEs* that optimize working capital having a greater potential for expansion.

However, this study has certain limitations, such as a limited number of respondents and the inclusion of only internal variables. For future research, it is recommended to broaden the scope of respondents, incorporate external variables, and apply more diverse research methods. Practically, enhancing financial literacy, improving access to *financial inclusion*, promoting digitalization, and strengthening government policy support are essential for enabling *MSMEs* to manage business capital effectively and achieve sustainable growth.

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