Financial Literacy In The MSME Sector

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Abstract

The purpose of this study was to evaluate the relationship between financial literacy, locus of control, and financial inclusion and the financial behaviour of MSME actors in the Central Market Environment of Luwuk Banggai Regency. The study was carried out with the help of SEM (Structural Equation Modelling) analysis tools and the PLS (Partial Least Square) approach on 55 samples of MSME actors. The findings of testing the hypothesis suggest that financial literacy and financial inclusion have a favourable impact on financial behaviour. Furthermore, financial literacy, locus of control, and financial inclusion all have an impact on financial behaviour. This demonstrates that financial literacy, locus of control, and financial inclusion all play a vital role in shaping the financial behaviour of MSME actors in the Luwuk Banggai Regency's Central Market Environment.

Keywords: MSMEs, Financial Literacy, Financial Inclusion, Financial Behaviour

Introduction

Financial behaviour is a key asset in achieving financial stability. Because financial behaviour is an action made in the management of finances, it is closely related to financial literacy. Literacy is a component of financial behaviour, and it is considered that financial literacy contributes positively to a person's financial well-being. This is due to the ability of appropriate financial literacy to reduce waste in financial management. Moridu (Moridu, 2023). According to Moridu (2023), financial literacy has a considerable favourable effect on financial behaviour. Moridu et al., (2022) concluded from their research that financial literacy has a strong favourable effect on financial behaviour. has a strong positive effect on financial behaviour as well. Moridu (2023) discovered the contrary result, that financial literacy had no effect on financial behaviour.

Moridu (2022) discovered that financial inclusion has a favourable and significant influence on financial behaviour in addition to financial literacy. As a result, it is possible to assert that the availability of financial information influences financial behaviour. However, this contradicts the findings of Moridu et al., (2023), who discovered no relationship between financial inclusion and financial behaviour.

Given the importance of financial behaviour in financial management, managers must pay close attention to the elements that influence financial behaviour. As a result, having the proper financial behaviour is critical to supporting the growth of the MSME sector. According to the explanation, financial literacy, locus of control, and financial inclusion are all related to financial behaviour. As a result, an evaluation of its implementation in the MSME sector in the Central Market Environment in Luwuk Banggai Regency is required. The following is the research hypothesis:

This study's hypotheses are as follows:

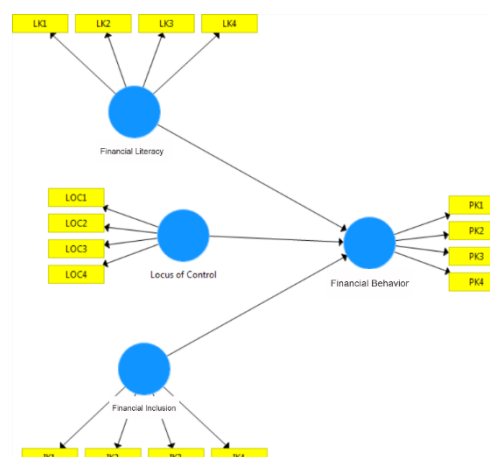H1: Financial literacy influences financial behaviour significantly.

H2: The locus of control influences financial behaviour significantly.

H3: Financial inclusion significantly improves financial behaviour.

Methods

The quantitative method was applied in this study. The goal of this study is to identify the causal relationship between financial literacy factors, locus of control, financial inclusion, and financial behaviour using quantitative methodologies. The sampling methodology employs the method described in Roscoe's Theory. The ideal sample size ranges from 35 to 555. However, correlation or regression analysis is also performed to ensure that the sample members are at least ten times the variable under investigation (Kurhayadi, 2023).

Figure 1 Framework of Thought

Source: PLS SEM Data Analysis, 2023s

Results and Discussion

The goal of this study was to evaluate the association between financial literacy factors, locus of control, financial inclusion, and financial behaviour in MSMEs in the Luwuk Banggai Regency's Central Market Environment. The analysis approach utilised is SEM (Structural Equation Modelling) with the PLS (Partial Least Square) method, which is based on the research method.

a. Testing of the Outer Model

Outer Model testing is essential for determining the research model's validity and dependability. The results of the outer model tests will be visible in factor loading, Averange Variance Extratcted (AVE), Discriminant Validity, and composite reliability.

a) Load Factor

The loading factor is the first stage in determining the validity of research indicators. If the loading factor value is more than 0.5, indicators can be certified legitimate. The indicator is deleted from the research model if the loading factor value is not adequate (Ananda Sabil Husain, 2015). Figure 2 shows the outcomes of the outer model algorithm:
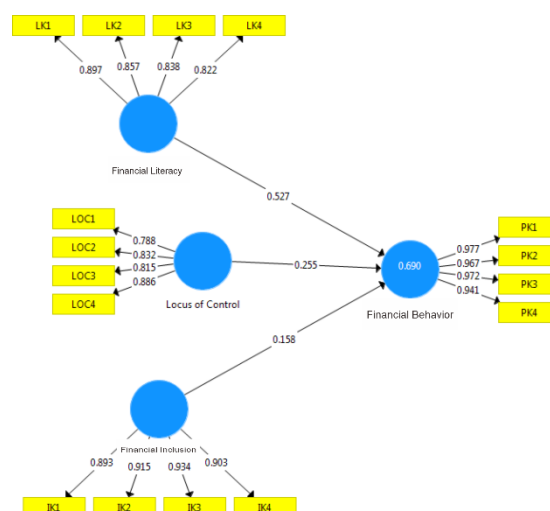

Figure 2: Outer Model Algorithm Outcomes

According to the algorithm results, the indicator loading factor on the four latent variables is greater than 0.5. This demonstrates that all latent variable indicators are valid and can be used in research.

b) Extracted Average Variance (AVE)

Because the AVE value is the consequence of convergent validity, it is used to examine convergent validity. Based on the data processing results, it was discovered that all AVE values were > 0.5 (above 0.5). This demonstrates that the concept is trustworthy. Table 1 shows the following AVE results:

Table 1: Extracted Average Variance (AVE)

Variabel	Average Variance Extracted (AVE)
Financial Inclusion	0.830
Financial Literacy	0.729
Locus of Control	0.691
Financial Behavior	0.930

Data Analysis Using PLS SEM, 2023

c) Validity in Discrimination

The discriminant validity test will be performed.

As long as the correlation between indicators and latent variables is greater than the correlation between latent variables, the relationship is valid. Table 2 displays the cross loading of this research indicator.

Table 2. Cross Loading

Indicator	Financial Inclusion	Financial Literacy	Kocus of Control	Financial Behaviour	Description
IK.1	0.893	0.481	0.523	0.490	Valid
IK.2	0.915	0.487	0.591	0.452	Valid
IK.3	0.934	0.479	0.592	0.528	Valid
IK.4	0.903	0.452	0.557	0.641	Valid
LK.1	0.517	0.897	0.631	0.872	Valid
LK.2	0.424	0.857	0.599	0.566	Valid
LK.3	0.415	0.898	0.592	0.585	Valid
LK.4	0.390	0.822	0.547	0.573	Valid
LOC.1	0.519	0.480	0.788	0.399	Valid
LOC.2	0.496	0.548	0.832	0.480	Valid
LOC.3	0.448	0.582	0.815	0.502	Valid
LOC.4	0.590	0.657	0.886	0.836	Valid

PK.1	0.561	0.787	0.690	0.977	Valid
PK.2	0.556	0.750	0.692	0.967	Valid
PK.3	0.562	0.798	0.707	0.972	Valid
PK.4	0.599	0.692	0.656	0.941	Valid

Source : PLS SEM Data Analysis, 2023

b. Inner Model Testing

a) Determination Coefficient R2 (or R Squared) The structural model test, according to Moridu (2023), is used to examine the effect or relationship between latent constructs on the research model.

In the research model, there is a relationship between latent constructs. The inner model test results in R Square show all dependent latent variables. Table 5 shows the results of the inner model test R Square value in detail. The R Square test results were 0.580, or 58 percent. The R Square value suggests that the financial illiteracy, locus of control, and financial inclusion factors account for 58% of the variance in the UMKM financial behaviour construct. Other variables account for the remaining 31%. Moridu (2020) defines R Square values as 0.57 (strong), 0.33 (medium), and 0.18 (weak), so a R Square value of 58% is considered strong.

Table 3. R Square

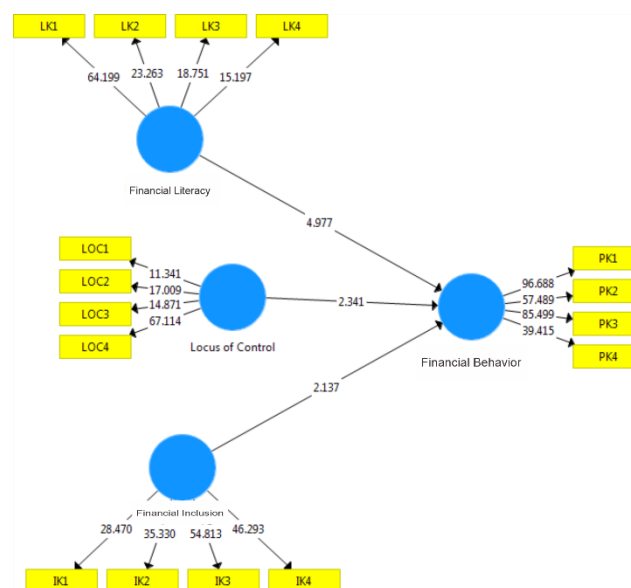|	R Square	R Square Adjusted
Financial Behavior	0.690	0.677

Source : Data Analysis Using PLS SEM, 2023

The research hypothesis is tested after determining the R Square value. The findings of hypothesis testing are shown in greater detail in Table 4:

Table 4. Hypothesis Test Outcomes

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistic (IO/STDEVI)	P Values
Financial Literacy > Financial Behavior	0.527	0.523	0.106	4.977	0.000
Locus of Control > Financial Behavior	0.255	0.269	0.109	2.341	0.020
Financial Inclusion > Financial Behavior	0.158	0.150	0.074	2.137	0.033

Source: 2023 SEM PLS Data Analysis Based on the results of the hypothesis test

According to the comparison of t statistics and t table (> 1.850), financial literacy has a substantial positive effect on financial behaviour (4.877> 1.850) and with a P value of 0.000 (0.05). Similarly, the locus of control hypothesis test on financial behaviour revealed that locus of control had a significant positive influence on financial behaviour (2,341>1,850) with a P Value of 0.020 (0.05). The final hypothesis can be stated as having a significant positive influence on financial behaviour (2.137> 1.850) and a P Value of 0.033 (0.05). Figure 3 also depicts the following Bootstrapping results:

Data Analysis Using PLS SEM, 2023
Figure 3: The Bootstrapping Process

1) Financial Literacy and Financial Behaviour

According to the findings of the hypothesis testing, financial literacy has a strong positive effect on financial behaviour in MSMEs in the Central Market Environment in Luwuk Banggai Regency. Thus, the more suitable financial literacy or knowledge about finance acquired by MSME players has a favourable and significant impact on their financial behaviour in managing their funds. Similar findings have previously been reported by Moridu et al., (2023) and Kurhayadi (2022). So these findings are adequate to demonstrate that financial literacy plays an essential role in shaping a person's financial behaviour.

2) The Influence of Control Locus on Financial Behaviour

According to the findings of hypothesis testing, locus of control has a strong beneficial effect on financial behaviour. As a result, one of the main factors influencing the financial behaviour of MSME players in the Central Market Environment is locus of control. MSME actors with the appropriate locus of control or self-control will have a positive impact on financial behaviour. This is critical in order to reduce waste as a business actor.

According to the findings of hypothesis testing, financial inclusion has a considerable positive effect on financial behaviour. This demonstrates that financial inclusion has a vital influence in the financial behaviour of MSME actors in the Luwuk Banggai Regency's Central Market Environment. As a result, the better the financial behaviour of MSME players, the more adequate financial inclusion. As a result, it is critical that linked parties evaluate the availability of financial inclusion in order to assist the growth of the MSME sector. Financial inclusion that is adequate and adequate supports and plays a significant part in providing good encouragement to the MSME sector.

Conclusion

According to the findings of the research, financial literacy, locus of control, and financial inclusion all have a positive and significant impact on financial behaviour. As a result, if associated parties or the government want to promote the MSME sector, they must consider these three elements. Financial literacy is the variable that has the most influence on financial behaviour of the three. However, locus of control and financial inclusion play an equally vital influence. The locus of control, or good and adequate self-discipline, also influences how an MSME actor manages their finances. Similarly, financial inclusion support, as well as access to suitable funding facilities, influences the financial behaviour of MSME actors. MSME actors' financial behaviour is influenced.

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