



## Financial literacy on the financial management of MSME actors in Makassar City

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### ABSTRACT

MSME actors must possess financial management skills and financial literacy to boost their business performance. This study intends to identify the partial and simultaneous effects of basic and advanced financial literacy on the financial management of MSME actors in Makassar City. The offspring of this study are the 100 MSME actors in Makassar City who made up the investigated samples. Data analysis with the use of the SmartPLS software. Testing of physiological variables' hypotheses P values of  $0.047 < 0.05$  indicate that basic financial literacy variables have a positive and significant impact on financial management, while P values of  $0.000 < 0.05$  indicate that advanced financial literacy variables have a positive and significant impact on financial management. The R square value of 0.664 indicates that both basic and advanced financial literacy variables positively and significantly impact financial management. The analysis's findings revealed that the basic financial literacy variable had a major influence of 25.4%, the advanced financial literacy variable had a major influence of 59.9%, and other variables that were not measured in this study were responsible for the remaining influences on financial management. Based on the findings of this study, it can be inferred that to enhance their financial management abilities and boost business performance, MSMEs should prioritize improving their financial literacy. This can be achieved by increasing their understanding and knowledge of financial matters.

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### 1. INTRODUCTION

MSME's (Micro, Small, and Medium-Sized Enterprises) contribution to reducing poverty and unemployment as well as improving community welfare is very significant (Al-Mamary

et al., 2020; Indika & Marliza, 2019; Wahyunti, 2020). MSME actors must have knowledge regarding accounting in order to support their business management capacities, which is one of the expertise that MSME actors must have in order to develop their businesses. (Triyanto & Novitasari, 2019). Of course, MSME actors must have a financial education to grasp accounting science.

We can observe the phenomenon that not all MSME actors have studied accounting in both official and informal educational settings. According to (Alfiah et al., 2023; Latifah et al., 2021) understanding accounting information systems, including financial management, is particularly beneficial for MSME actors in business management. Considering the effects on enhancing business performance. As a result, financial literacy is crucial for business players, especially MSME actors. Being financially literate refers to having a general understanding of finances, including savings, investments, debt, insurance, and other financial instruments. (Arianti, 2021: 9). Knowing financial literacy will increase interest and seriousness in managing a business (Utami & Wahyuni, 2022). Financial literacy is divided into 2 stages, namely basic financial literacy which is related to basic understanding and knowledge in making investments needed in personal financial management, and advanced financial literacy which means having a deeper understanding and more complex skills related to personal finance (Soejono et al., 2022). In this study, the concept of basic financial literacy in MSME actors to be measured is related to understanding related to income, production, and obligations in business management, while the concept of advanced financial literacy to be measured is related to the ability to compile and apply income, production, and liabilities. The selection of measurement components is based on Putri & Tasman (2019) Financial Literacy is one of the variables in Financial Management Behavior.

Financial management capabilities must be possessed by business actors to support their business continuity and anticipate unstable economic conditions. The understanding and literacy knowledge possessed by MSME actors in terms of finance affects their business sustainability because of the ability to manage their business (Boelova et al., 2023) this statement is also in line with the opinion (Arianti & Azzahra, 2020) in their research. The researcher further argues that financial literacy affects the financial management performance of MSME actors (Septiani & Wuryani, 2020). In addition, proper and good financial literacy impacts the sustainability of the culinary business to compete in the market for a long time (Panggabean et al., 2018). Previous studies have informed that a good understanding of financial literacy by MSME actors will be able to support business continuity in the future because they have a good foundation in business management, especially financial management. Financial management or financial management is an activity to plan, organize, direct, and control financial activities such as the procurement and utilization of business funds (Purba et al., 2021). Having good financial management skills will make it easier for business actors to realize their goals (Astuty, 2019). Research by Sugiharti et al (2019) explains that financial management is the basis of creating the ability to run a business.

Makassar City is an area with a large number of MSME players, namely more than 2,683 MSME players (Sari, 2019), this number must certainly be the attention of the relevant government to be able to continue to increase the number of business actors so that it can support the needs of the population of Makassar City which amounts to 1,432,189 people per year 2022 according to (BPS, 2023). Business sustainability must be considered by MSME actors, so MSME actors in Makassar City need to have a financial understanding, especially in determining the cost of goods produced and preparing financial statements.

## 2. RESEARCH METHOD

The approach used in this study is quantitative descriptive with primary data and secondary data, where data collection uses questionnaires

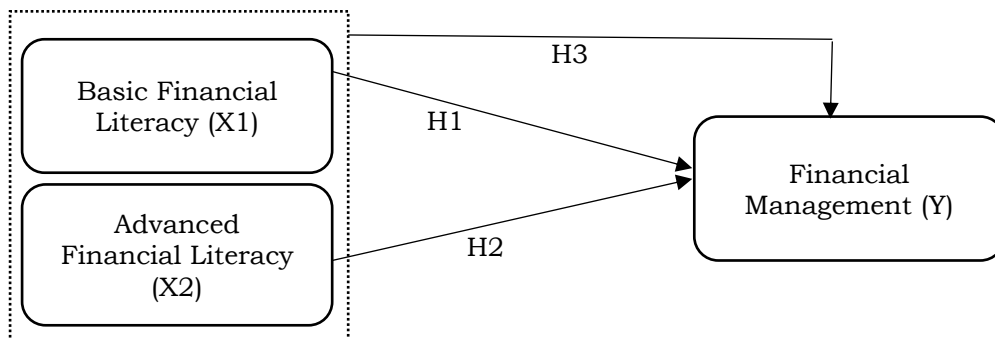


Figure 1. Conceptual Framework

Based on the conceptual framework that has been prepared above, hypotheses are formulated to answer temporary conclusions on a problem under study, including a) H1: Basic financial literacy has a positive effect on financial management, b) H2: Advanced financial literacy has a positive effect on financial management, and c) H3: Basic financial literacy and advanced financial literacy simultaneously has a positive effect on financial management.

The population of this research is MSME actors in Makassar City. In taking and determining samples in this study using purposive sampling techniques with the Slovin formula error level of 10% and obtained 100 samples. The measurement scale used is a positive form Likert scale with five choices. This research uses descriptive quantitative methods with multiple linear regression analysis, and the analysis tool used is SmartPLS.

Hypothesis testing of this study refers to the results of bootstrapping test results. The basis for measurement is based on P values and T Statistics to test the partial influence of exogenous variables on endogenous variables and by looking at the R square adjusted values to test the influence of exogenous variables simultaneously on endogenous variables. In addition, multiple linear regression tests were also carried out to see the magnitude of the influence of exogenous variables on endogenous variables.

$$Y = \beta_1 \cdot X_1 + \beta_2 \cdot X_2 + e \quad (1)$$

Information:

Y = Endogenous Variable  
 $\beta_1$  and  $\beta_2$  = Regression Coefficient  
 $X_1$  and  $X_2$  = Exogenous Variables  
 E = Error

## 3. RESULTS AND DISCUSSIONS

The implementation of data collection, was carried out by distributing questionnaires to respondents using Google Forms, the number of respondents' answers collected was 100 respondents who were MSME actors in Makassar City.

Data analysis in this study uses SmartPLS software version 3, where PLS (Partial Least Square) as an analysis method that is soft modeling because the data does not need to be assumed with a certain measurement scale, which means that the number of samples does not need to be large, samples under 100 sudah are enough for processing (Evi & Rachbini, 2023). The steps in processing research data using SmartPLS are outer model analysis and inner model and hypothesis testing.

### 3.1 Outer Model Analysis

This analysis begins by testing the validity of the data with two tests, namely convergent validity and discriminant validity. Assessment of Convergent validity is by looking at the correlation between individual score items of each indicator component per variable calculated using SmartPLS. The individual measurements of the indicator components in this study have a loading factor of  $> 0.6$  each and an Average Variance Extracted (AVE) value of  $> 0.5$ , so the measured data indicators are declared valid convergently.

Table 1. Convergent validity test

	Advanced Financial Literacy	Basic Financial Literacy	Financial Management
X1.1		0.857	
X1.2		0.709	
X1.3		0.804	
X1.4		0.723	
X1.5		0.757	
X1.6		0.66	
X1.7		0.768	
X2.1	0.76		
X2.2	0.666		
X2.3	0.741		
X2.4	0.766		
X2.5	0.77		
X2.6	0.734		
X2.7	0.801		
Y.1			0.725
Y.2			0.687
Y.3			0.844
Y.4			0.644
Y.5			0.757
Y.6			0.799

Source: Data processed 2023 by SmartPLS-Version.3

Sedangkan apabila melihat nilai cros loading menunjukkan bahwa korelasi konstruk yang diukur memiliki nilai  $>$  dari konstruk lainnya, maka indikator data penelitian yang diukur dinyatakan valid secara discriminant.

Table. 2 Discriminant validity test

	Advanced Financial Literacy	Basic Financial Literacy	Financial Management
X1.1	0.7	0.857	0.643
X1.2	0.497	0.709	0.518
X1.3	0.638	0.804	0.629
X1.4	0.529	0.723	0.48
X1.5	0.635	0.757	0.563
X1.6	0.606	0.66	0.482
X1.7	0.682	0.768	0.584
X2.1	0.76	0.702	0.625
X2.2	0.666	0.534	0.521
X2.3	0.741	0.632	0.61

X2.4	0.766	0.599	0.624
X2.5	0.77	0.622	0.544
X2.6	0.734	0.522	0.587
X2.7	0.801	0.645	0.693
Y.1	0.609	0.658	0.725
Y.2	0.629	0.606	0.687
Y.3	0.658	0.553	0.844
Y.4	0.395	0.424	0.644
Y.5	0.561	0.474	0.757
Y.6	0.685	0.559	0.799

Source: Data processed 2023 by SmartPLS-Version.3

After testing the validity of the data, then test the reliability of the data to explain the level of reliability, accuracy, accuracy, and consistency of the indicators in the questionnaire if repeated measurements are made (Sugiyono, 2022). To test the reliability of research data, it can be seen at the Cronbach Alpha value, where if the Cronbach Alpha value  $> 0.6$  then the data is said to be reliable. Data reliability can also be seen in the Composite Reliability value, if it is greater than the Cronbach Alpha value, then the research data is said to be reliable. Table 3 below shows that the indicator components used in this study are reliable because they meet the reliability requirements described earlier.

Table 3. Reliability test

	Cronbach's Alpha	rho_A	Composite Reliability	Average Extracted Variance (AVE)
Advanced Financial Literacy	0.869	0.873	0.899	0.561
Basic Financial Literacy	0.874	0.882	0.903	0.572
Financial Management	0.839	0.847	0.882	0.556

Source: Data processed 2023 by SmartPLS-Version.3

### 3.2 Inner Model Analysis

The purpose of the inner model analysis is to see if the relationship between variables has been hypothesized previously. The inner model test can be seen at the R Square value. The following are presented the results of the inner model test in a table.

Table 4. Inner model test

	R Square	R Square Adjusted	AVE	GoF
Advanced Financial Literacy			0.561	
Basic Financial Literacy			0.572	0.615
Financial Management	0.671	0.664	0.556	

Source: Data processed 2023 by SmartPLS-Version.3

Based on the table. 4 di above that the R Square value for endogenous variables is  $0.671 \geq 0.67$ , meaning that the relationship between exogenous and endogenous variables is in a strong category. In addition, the Goodness of Fit (GoF) test was conducted to see the compatibility of the model both the outer model and inner model used in this study, where the GoF value of 0.615 was obtained and entered the high category when viewed in the overall model match.

### 3.3 Test the hypothesis

Furthermore, the bootstrapping analysis aims to see the partial influence between exogenous variables and endogenous variables and also looks to answer the hypotheses

that have been made before. The results of the bootstrapping test can be seen in the table. 5 below.

Tabel 5. Uji Hipotesis

	Original Sample (O)	Sample Average (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
Advanced Financial Literacy -> Financial Management	0.599	0.607	0.121	4.945	0.000
Basic Financial Literacy -> Financial Management	0.254	0.253	0.128	1.988	0.047

Source: Data processed 2023 by SmartPLS-Version.3

The P values value for the influence of the basic financial literacy variable on financial management shows a value of 0.047 and  $< 0.05$  which means it has a significant influence, while the P value value on the advanced financial literacy variable shows a value of 0.000 and  $< 0.05$  which means it has a significant influence. In addition, if you look at the value of T, and count on both exogenous variables, it shows that the value of T Calculate  $> T$  table (1.661). After conducting a hypothesis test to see the influence of exogenous variables on endogenous variables, then look at the magnitude of the influence of exogenous variables on endogenous variables. The F Square basic financial literacy score of 0.254 is in the moderate category and the F Square advanced financial literacy score of 0.599 is in the full category.

### 3.4 Discussion

#### a. The Effect of Basic Financial Literacy on Financial Management

From the results of the analysis conducted with the help of the SmartPLS program, it is known that there is a positive and significant influence of basic financial literacy variables on financial management. This statement is evidenced by looking at the P values for the influence of basic financial literacy variables on financial management showing a value of 0.047 and  $< 0.05$ . In addition to looking at the P values value, it is also seen at the statistical t value which shows a value of 1.988  $> t$  table 1.661. This concept is in line with research conducted by Nugraha (2020), stating that basic financial knowledge has a significant effect on MSME financial management.

The description of the results of data processing related to the influence of basic financial literacy on the financial management of MSME actors in Makassar City, indicates that the more basic knowledge of MSME actors in Makassar City, the more knowledge of financial management will increase. This statement is evidenced by seeing the original sampling value in the basic financial literacy hypothesis test on financial management of 0.254 or 25.4%, which means that every 1 unit increase in the basic financial literacy variable can increase financial management ability by 25.4%. This means that to improve the ability of MSME actors in the city of Makassar to manage their business finances, it is necessary to increase understanding related to basic financial literacy. This result is in line with the opinion of Setiawan & Saputra (2020) that MSME players who have basic financial knowledge will be able to carry out financial management well.

#### b. The Effect of Advanced Financial Literacy on Financial Management

The variable of advanced financial literacy in this study has a significant positive effect on financial management variables. Where the statement is proven by looking at the P values for the influence of advanced financial literacy variables on financial management which shows a value of 0.000 and  $< 0.05$ . In addition to looking at the P values, it is also seen at the statistical t values which show a value of 4.945  $> t$  table 1.661. The results of the hypothesis test are in line with research conducted by Ayem & Wahidah (2021) which states that the ability to compile financial statements has a positive effect on the

performance of MSMEs. The variables in the study if related to the variables raised in this study are the ability to compile financial statements a measurement indicator on the variable of advanced financial literacy, and the performance of MSMEs in the study one of them measures the ability to achieve effective use of financial resources which are part of financial management. The results of this study are in line with which states that knowledge related to financial concepts such as investment has a positive effect on financial management capabilities.

The results of data processing related to the influence of advanced financial literacy on the financial management of MSME actors in Makassar City indicate that the more advanced financial knowledge of MSME actors in Makassar City, the more knowledge of financial management of MSME actors in Makassar City will increase. This statement is evidenced by seeing the original sampling value in the advanced financial literacy hypothesis test on financial management of 0.599 or 59.9%, which means that every 1 unit increase in the advanced financial literacy variable can increase financial management ability by 59.9%. Therefore, to improve the ability of MSME actors in the city of Makassar to manage their business finances, it is necessary to increase understanding related to advanced financial literacy, especially if you look at the percentage of influence of 59.9% which means that the variable advanced financial literacy influence is very dominant compared to other variables measured and also with other variables that are not measured in this study.

c. The Simultaneous Effect of Basic Financial Literacy and Advanced Financial Literacy on Financial Management

The simultaneous influence of exogenous variables on endogenous variables is seen in the value of the R Square Adjusted value for endogenous variables of 0.664, meaning that the basic financial literacy and advanced financial literacy variables simultaneously affect financial management variables. Pusporini (2020), in the results of his research, explained that overall financial literacy, both basic and advanced, has a positive effect on the financial management of MSME actors in Cenere, Depok. Indications from the results of this study when connected with previous research explain that if MSME actors have a good understanding of financial literacy, it will have a positive impact on their ability to manage their business finances. The results obtained in this study are in line with the research of Dahrani et al (2022) which concluded that financial literacy knowledge in general has a positive effect on the financial management of MSME actors.

#### 4. CONCLUSION

The results of the analysis show that the basic financial literacy variable has a positive effect on the financial management of MSME actors in Makassar City, and the advanced financial literacy variable has a positive effect on the financial management of MSME actors in Makassar City, these results are in accordance with the purpose of this study. With these results, it is explained that business actors, especially MSMEs, need accounting knowledge, in this case, understanding, and knowledge of making, as well as the ability to compile related to basic and advanced financial concepts including cash flow, basic financial statements, production costs, income and expenses, financing, assets and liabilities, budgeters, and the concept of interest rates, in helping them run their businesses so that the performance of the business being run can increase even more because MSME actors can carry out financial management properly and optimally for the achievement of their goals. This statement is also in line with the results of previous studies that discussed financial literacy and financial management, as well as the performance of MSMEs. Future research development is to further explore the most effective financial education and training strategies in improving financial literacy and financial management of MSMEs. This research could focus on identifying the most suitable and efficient training

methods to improve the understanding of basic and advanced financial concepts, and evaluating their impact on the financial performance of MSMEs. In addition, research could consider moderator variables that may affect the relationship between financial literacy and financial management, such as demographic factors, business size and local economic environment. Results from such research will provide practical guidance for authorities, educational institutions and other stakeholders to design more effective financial literacy programs and support the sustainable development of MSMEs.

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