

## THE BEHAVIORAL FINANCE OF MSME IN INDONESIA: FINANCIAL LITERACY, FINANCIAL TECHNOLOGY (FINTECH), AND FINANCIAL ATTITUDES

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### ABSTRACT

The study investigates the critical factors affecting financial behavior in Micro, Small, and Medium Enterprises (MSMEs). It analyzes the role of financial literacy, attitudes, and financial technology (Fintech) on financial management behavior among 1.1 million DKI Jakarta MSME stakeholders in 2020 through random sampling. The study reveals that heightened financial literacy positively influences financial management behavior. A solid foundation in financial knowledge, encompassing personal and corporate finance, leads to improved financial practices. This validates theories about cognitive biases, heuristics, and practical financial decision-making. Additionally, it emphasizes the pivotal role of positive financial attitudes in shaping financial management behavior. Stakeholders with constructive attitudes, such as financial self-control and proactive financial approaches, make sound financial decisions. This aligns with theories of planned behavior, which underscore attitudes in guiding future financial actions. Conversely, the influence of financial technology (Fintech) on MSME financial behavior is limited, primarily due to a lack of awareness and understanding among small and micro-enterprise operators regarding Fintech products and services. This study underscores the importance of promoting financial literacy, nurturing positive financial attitudes, and enhancing Fintech awareness among MSMEs. It offers actionable insights for policymakers, financial institutions, and business support organizations, enabling them to bolster MSMEs' financial knowledge and practices, thereby supporting their role as economic powerhouses.

**Keywords:** Financial Literacy, Fintech, Financial Attitudes, Financial Management Behavioral, MSMEs

### ABSTRAK

Penelitian ini menyelidiki faktor-faktor krusial yang memengaruhi perilaku keuangan dalam ranah Usaha Mikro, Kecil, dan Menengah (UMKM). Penelitian ini menganalisis peran literasi keuangan, sikap, dan teknologi keuangan (Fintech) terhadap perilaku pengelolaan keuangan di antara 1,1 juta stakeholder UMKM DKI Jakarta pada tahun 2020 melalui pengambilan sampel acak. Penelitian ini mengungkap bahwa peningkatan literasi keuangan berpengaruh positif terhadap perilaku pengelolaan keuangan. Dasar yang kuat dalam pengetahuan keuangan, yang mencakup keuangan pribadi dan perusahaan, menghasilkan praktik-praktik keuangan yang lebih baik. Hal ini mengonfirmasi teori-teori tentang bias kognitif, heuristik, dan pengambilan keputusan keuangan yang praktis. Selain itu, penelitian ini menekankan peran penting dari sikap positif terhadap keuangan dalam membentuk perilaku pengelolaan keuangan. Para stakeholder dengan sikap konstruktif, seperti kendali keuangan dan pendekatan keuangan proaktif, mengambil keputusan keuangan yang bijaksana. Hal ini sejalan dengan teori perilaku terencana, yang menekankan bahwa sikap memengaruhi tindakan keuangan di masa depan. Di sisi lain, pengaruh teknologi keuangan (Fintech) terhadap perilaku keuangan UMKM terbatas, terutama karena kurangnya kesadaran dan pemahaman di kalangan operator usaha mikro dan kecil mengenai produk dan layanan Fintech. Penelitian ini menegaskan pentingnya promosi literasi keuangan, pembentukan sikap positif terhadap keuangan, dan peningkatan kesadaran terhadap Fintech di kalangan UMKM. Ini memberikan wawasan yang dapat dijalankan bagi para pembuat kebijakan, lembaga keuangan, dan organisasi pendukung bisnis, memungkinkan mereka untuk memperkuat pengetahuan dan praktik keuangan UMKM, dan dengan demikian mendukung peran mereka sebagai kekuatan ekonomi.

**Kata Kunci:** Literasi Keuangan, Fintech, Sikap Keuangan, Perilaku Pengelolaan Keuangan, UMKM

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## INTRODUCTION

The significance of Micro, Small, and Medium Enterprises (MSMEs) in contributing to the economy has been well-established (Endris & Kassegn, 2022; Lestari et al., 2022; Pangarso et al., 2022; Sindhwani et al., 2022). MSMEs' economic role is undeniably linked to their performance and the capabilities of entrepreneurs and managers (Kyndt & Baert, 2015; Mishra & Zachary, 2015), particularly in financial management. In financial management, MSMEs, especially micro and small enterprises (UMK), exhibit distinctive characteristics as they transition from personal to corporate financial management (Risman et al., 2023). This phenomenon is a point of interest for researchers, notably those in behavioral finance. MSMEs grapple with internal and external constraints, opportunities, and challenges like larger businesses. Some of these factors are intricately connected to managerial competence, encompassing the financial literacy and attitudes of the entrepreneurs and technological advancements, including financial technology (Fintech), that affect their access to funding. These factors significantly influence the financial behavior of MSME management.

Financial literacy stands as a fundamental requirement for MSMEs. The absence of financial literacy undoubtedly impacts the performance of these enterprises. According to the Financial Services Authority (OJK), financial literacy refers to an individual's ability to analyze, manage, and control financial situations that can affect their lives. The National Financial Literacy Survey (SNLIK) of 2016 reported a financial literacy rate of 29.7% and a financial inclusion rate of 67.8%. In contrast, the 2019 National Financial Literacy Survey (SNLIK) reported a financial literacy rate of 38.03% and a financial inclusion rate of 76.19%. These figures underscore that the general knowledge regarding the use of financial products and services remains relatively low, with not everyone possessing a strong level of financial literacy.

Although prior research on the specific effects of financial literacy on MSME financial management behavior remains limited, numerous general studies on MSMEs have been conducted with mixed and inconsistent findings. Several studies, including those by Herawati et al. (2018), Setyawan and Wulandari (2019), and Atikah and Kurniawan (2020), have reported a positive influence of financial literacy on financial management behavior. In contrast, research conducted by Ismail and Pradesyah (2023), Al-Irsyad and Pradesyah (2023), Syaputri and Pradesyah (2023), and Kartini and Wijaya (2023) suggests that financial literacy may not significantly affect financial management.

Financial attitude is another factor impacting the competence of MSME financial managers. Many small and micro-enterprises may lack incentives to enhance their financial management skills further, even though such improvements are crucial. Additionally, some micro, small, and medium-sized enterprises, particularly small and medium-sized enterprises, may believe their performance is satisfactory and that their businesses can continue to operate smoothly. They may continue with business as usual instead of engaging in budget planning and financial control. If this attitude persists, the performance of SMEs may decline, affecting their competitiveness in the market.

The impact of financial attitude is an intriguing area of research in personal finance. However, specific research on the influence of financial attitudes on MSME financial management behavior remains limited. Previous studies have examined the impact of general financial attitudes on MSME financial management behavior, but their findings are diverse and inconsistent. While research by Kautsar et al. (2020), Novianti and Salam (2021), Haqiqi and Pertiwi (2022), and Ariadin and Safitri (2021) have suggested a positive impact of financial attitudes on financial management behavior, studies by Aldiki

et al. (2022), Cahya et al. (2021), and Desi (2022) have found no significant effect of financial attitudes on financial management behavior.

Capital or financing remains one of the enduring challenges for MSMEs. In addition to grappling with difficulties in accessing traditional financial institutions, as highlighted by Esubalew and Raghurama (2020), this financing predicament is further compounded by the prevalence of biased and irrational decision-making. However, technological advancements have paved the way for swift and accessible financing. The emergence of financial technology (fintech) has revolutionized access to financial services, heralding significant transformations across various sectors of the economy and daily life. Technology is a situational factor influencing individual behavior (Sampson, 1976).

The impact of technology on MSMEs, spanning their performance and financial behavior, has garnered substantial attention. However, specific research addressing the influence of fintech on the financial behavior of MSMEs remains relatively scarce. A limited body of research on this subject includes studies by Junianto and Kohardinata (2020), Tukan et al. (2020), Anisyah et al. (2021), Apriyanti and Ramadita (2022), and Risman et al. (2023). Junianto and Kohardinata (2020) found that fintech plays a pivotal role in shaping investment decisions, whereas Risman et al. (2023) discovered that fintech positively impacts MSME financial actors. Conversely, Tukan et al. (2020), Anisyah et al. (2021), and Apriyanti and Ramadita (2022) concluded that fintech does not significantly influence financial behavior.

This research explored the effects of three pivotal factors: financial literacy, financial attitudes, and financial technology (fintech) on MSME financial management behavior. The study seeks to provide comprehensive references and offer fresh empirical insights into the impact of these three factors within the realm of MSME financial behavior.

## **LITERATURE REVIEW**

Micro, Small, and Medium Enterprises (MSMEs) exhibit varying definitions across countries. However, they are commonly characterized by individuals or business entities producing goods or adding value to products. MSME categorization hinges on specific criteria, encompassing factors like asset value, employee count, turnover, and other relevant parameters. As Law No. 20 of 2008 outlined, these criteria distinguish MSMEs into micro, small, and medium enterprises.

MSME financial management denotes the method of efficiently and effectively administering the resources of these entities to realize their business objectives. For micro and small enterprises (UMK), the landscape of MSME financial management unfolds distinctive traits due to the transformation from personal (household) finance to corporate finance. On the one hand, these entities are treated as corporate entities, participating in financial management processes encompassing decisions on financing, investment, and dividend policies. Simultaneously, MSME financial management predominantly remains a personal undertaking of business owners. This realm extends to personal financial management within households, encompassing income, expenditure, savings, investments, and insurance protection.

Within the MSME context, behavioral finance manifests through two primary dimensions: Personal Finance Behavior and Behavioral Corporate Finance. Personal behavioral finance pertains to the planning and control of financial matters at an individual or family unit level, incorporating a spectrum

of psychological theories and expert insights related to behavioral changes. The study of personal financial behavior draws upon theories like the Stimulus Organism Response Theory (Hovland et al., 1953), the theory of Reasoned Action (Fishbein & Ajzen, 1975), situational factors (Sampson, 1977), and the theory of planned behavior (Ajzen, 1991). In contrast, Behavioral Corporate Finance delves into financial choices made by corporations, spanning investment and financing decisions. It recognizes the influence of financial managers and company executives' behavior and psychology on corporate financial decisions. It acknowledges heuristics, managerial bias, and market timing theory as key drivers of a company's financial conduct.

Financial literacy goes beyond financial education, encompassing the practical application of financial insights. It pertains to an individual's ability to comprehend financial knowledge, make informed financial decisions, and enhance personal financial arrangements. In an era where adequate money and financial management is increasingly significant, this skill is not limited to investment and banking professionals. However, it pertains to anyone responsible for daily financial affairs. When considering the behavioral finance of MSMEs, two key perspectives come to the fore: personal finance behavior and behavioral corporate finance. Within behavioral corporate finance, cognitive biases represent one facet of managerial bias. These biases emerge from disparities in the understanding, processing, and interpretation of available information, often closely linked to financial literacy. Financial literacy, or financial knowledge and skills, is a wellspring of heuristics that facilitate practical financial management, particularly in decision-making. MSME managers with substantial financial literacy are more inclined to make sound financial decisions, thus establishing a direct connection between financial literacy and financial management behavior.

Within the realm of personal financial behavior, according to Ajzen (1991), behavior is steered by intentions, influenced by three primary factors, one of which is subjective norms rooted in normative beliefs. Normative beliefs, in turn, can be molded by antecedents in the form of literacy. In this framework, financial literacy is an antecedent for normative beliefs, influencing financial management behavior. This theoretical model aligns with previous research, including studies conducted by Atikah & Kurniawan (2020), Rukamana & Azib (2021), Rahman & Risman (2021), Anisyah et al. (2021), Zikrillah et al. (2021), and Haqiqi & Pertiwi (2022). These studies consistently establish a positive relationship between financial literacy and financial management behavior, thereby underpinning the formulation of the first hypothesis:

H<sub>1</sub>: Financial Literacy has a positive effect on MSME financial management behavior.

Financial technology (FinTech), as presented by Risman et al. (2023), represents the fusion of financial services and technological innovation. It is a fundamental transformation of traditional business models into contemporary digital structures. In essence, FinTech caters to the lifestyle needs of individuals who primarily rely on information technology, encompassing the internet and various devices, while also aligning with the swift demands of modern life. Consequently, Financial Technology (FinTech) emerges as an evolving technological innovation within financial services.

According to Sampson (1977), technology is a situational factor influencing human behavior. Notably, Financial Technology (FinTech) simplifies the process for MSMEs to access rapid and straightforward financing. It streamlines MSME financial management by expediting financing decisions without necessitating intricate financial calculations, as Risman et al. (2023) highlighted. Consequently, Financial Technology (FinTech) positively impacts financial management behavior.

This theoretical framework is substantiated by previous research, inclusive of studies conducted by Anisyah et al. (2021), Junianto and Kohardinata (2020), Kusumar and Mendari (2021), Lathifah and Kautsar (2022), and Saputra and Dahmiri (2022). Collectively, these studies affirm the beneficial influence of FinTech on financial management behavior. Thus, we propose the second hypothesis as follows:

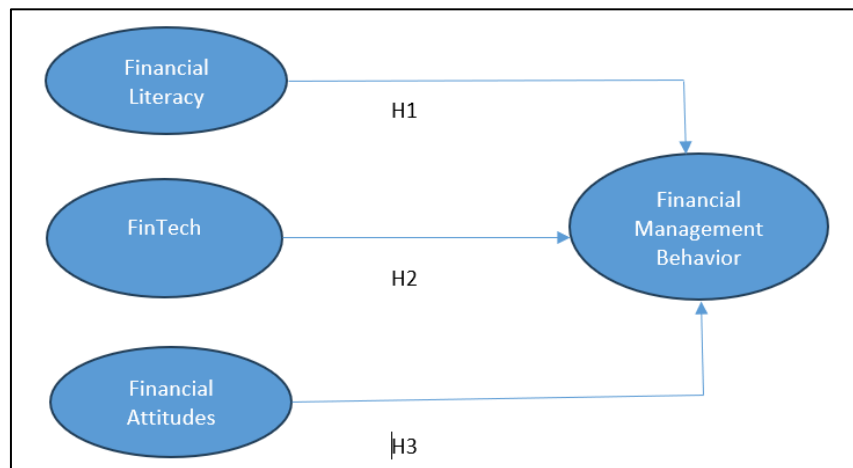
H<sub>2</sub>: FinTech has a positive effect on financial management behavior.

Financial attitude refers to an individual's demeanor influencing their intent to achieve specific financial goals. It encompasses both informational and emotional aspects associated with the learning process, fostering a positive orientation toward financial actions, as Ariadin and Safitri (2021) noted. Additionally, Prihastuty and Rahayuningsih (2018) elaborate that financial attitude gauges an individual's psychological state when assessing financial management practices. As a result, it becomes a guiding principle in making financial decisions to create and sustain value. Enhanced comprehension of finances empowers individuals to grasp their financial sentiments better. Developing a favorable financial attitude involves staying informed about current financial affairs, refraining from dwelling on past financial mistakes, and avoiding excessive worry about the future. It encourages individuals to adopt a constructive outlook and avoid repeating prior financial errors. Humaira (2018) identifies various indicators for measuring financial attitudes, including one's approach to personal finance, financial security, and self-assessment of personal finances.

Drawing from Ajzens's (1991) Theory of Planned Behavior, an individual's attitude toward financial management encompasses their mindset, strategies for financial management, and financial allocations based on a predetermined budget. This is because an individual with a positive financial attitude is likelier to exhibit favorable financial management behavior. A robust financial attitude, particularly among female teachers, correlates with a heightened commitment to prudent financial management. This rationale aligns with the conclusions of previous research, including studies conducted by Kautsar et al. (2020), Permady and Tristiarto (2022), Wasita et al. (2020), Setiawan and Suarmanayasa (2022), Budiandriani and Rosyadah (2020), and Ameliawati and Setiyani (2018). All these studies have consistently reported that financial attitudes positively influence financial management behavior. Therefore, we propose the third hypothesis as follows:

H<sub>3</sub>: Financial attitude has a positive effect on financial management behavior.

Therefore, the following conceptual framework is suggested based on these previous studies.



**Figure 1: Conceptual Framework**

## METHODS

This research employs a quantitative causality approach within the positivist paradigm to empirically examine the hypotheses concerning the influence of independent variables on dependent variables. The research population comprises 1,100,000 stakeholders associated with Micro, Small, and Medium Enterprises (MSMEs) in the DKI Jakarta region during 2020. A simple random sampling method was employed to select the research sample. The sample size was determined using Sloven's formula, accounting for a 10% estimated margin of sampling error. The research sample comprises 100 respondents, slightly exceeding the calculated sample size of 99.99. Data was collected through the distribution of surveys using Google Forms. The data analysis approach adopted in this study is descriptive statistics, which presents the collected data straightforwardly and non-exaggeratedly. For data analysis, Partial Least Squares (PLS) was employed. The PLS-SEM analysis comprises two distinct sub-models: the measurement model (outer model) and the structural model (inner model).

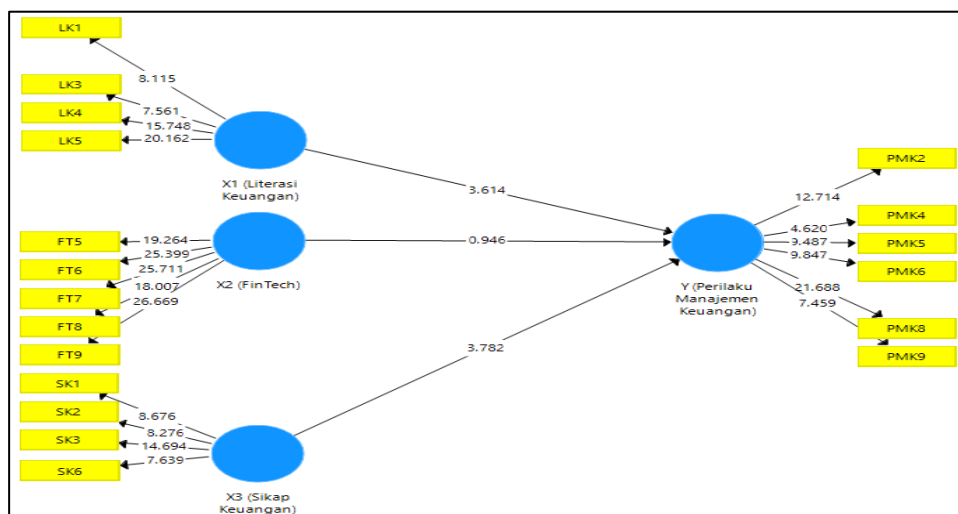
## RESULT AND DISCUSSION

The data in Table 1 offers valuable insights into the respondent profile. Among the participants, a significant majority are female, accounting for 64% of the sample, indicating the active participation of women in the survey. The dominant age group within the respondents falls in the 18-25 years category, comprising 71% of the sample, highlighting the substantial contribution of this age group to Micro, Small, and Medium Enterprises (MSMEs). The most prevalent occupation among the respondents is students, constituting 49% of the sample, suggesting a strong dedication to self-improvement. Notably, cooking businesses are the most common type of venture, with 46% involvement, possibly due to their simplicity and effective marketing. In terms of income, a significant portion of respondents (47%) reported earning less than 5 million per month, underlining the financial dynamics of the surveyed group.

**Table 1: Respondent Profile**

Profile	Information	Frequency	Percentage
Gender	Man	36	36%
	Woman	64	64%
Age	18-25 Years	71	71%
	26-40 Years	23	23%
	41-55 Years	7	7%
	>55 Years	0	0%
Occupation	Student / Student	49	49%
	Employee Private	18	18%
	Employee Country	2	2%
	Self-employed	24	24%
	Others	8	8%
Type of Business	Culinary Business	46	46%
	Fashion Business	13	13%
	Various Other Businesses	40	40%
Income Per Month	< 5 Million	47	47%
	5-10 Million	31	31%
	11-20 Million	13	13%
	20-30 Million	5	5%
	30-40 Million	2	2%
	>40 Million	2	2%

Evaluating the effectiveness of checks for the reliability of individual elements based on load factor values is crucial to ensure the validity of the data. Typically, a correlation is considered valid when its value exceeds 0.70 in such assessments. Moreover, a stress factor value ranging from 0.50 to 0.60 is acceptable. In our research, we conducted two rounds of tests to assess validity. In the initial test, some indicators did not meet the validity criteria, and consequently, these indicators were excluded from further analysis. However, during the second round of validity testing, we observed that all indicators met the validity criteria, as they all exhibited load factor values exceeding 0.50. This confirms the reliability of the data and validates the inclusion of all retained indicators in the analysis.



**Figure 2: Convergent Validity Test**

In addition to examining the loading factor values, we tested based on the Average Variance Extracted (AVE) for each relationship between a construct and other constructs in the model.

**Table 2:** Results of the AVE Validity Test

Variables	AVE
Financial Literacy	0.554
<i>FinTech</i>	0.718
Financial Attitudes	0.533
Financial Management Behavior	0.520

The results presented in Table 2 indicate that the AVE scores for each construct exceeded 0.50. This signifies that the correlations between individual constructs and others surpassed the 0.50 threshold, meeting the acceptance criteria. Therefore, these results suggest that the data collected is reliable and valid for further analysis.

When testing composite reliability, we use the default value of composite reliability and Cronbach's alpha  $\geq 0.70$ .

**Table 3:** Composite & Cronbach's Alpha Reliability Test Results

Variables	Composite Reliability	Cronbach's Alpha	Information
Financial Literacy	0.831	0.727	Reliable
FinTech	0.927	0.902	Reliable
Financial Attitudes	0.820	0.710	Reliable
Financial Management Behavior	0.866	0.815	Reliable

Table 3 shows that all the composite and Cronbach Alpha reliability values are equal to or greater than 0.70. Therefore, it can be concluded that this study employed a questionnaire survey with reliable constructs.

Estimating path relationship values within the structural model must be assessed for significance. To determine whether these relationships are statistically significant, a comparison is made between the t-table value at a significance level of 0.05 (5%), which equals 1.96, and the t-count (t-statistics) obtained from the analysis.

**Table 4:** Hypothesis Test Results

Variables	Original Sample	Standard Deviations	T-statistics	P values	Information
Financial Literacy → Financial Management Behavior	0.348	0.102	3.415	0.001	Positive – Significant
FinTech → Behavioral Financial Management	0.098	0.104	0.939	0.348	Positive – <i>Not Significant</i>
Financial Attitude → Financial Management Behavior	0.402	0.106	3.785	0.000	Positive – Significant

Table 4 reveals that increased financial literacy positively impacts the financial management behavior of MSMEs ( $H_1$ ). This improvement in financial literacy among MSME actors can be attributed to various factors, including their knowledge of personal and corporate finance. These findings align with



the Theory of Planned Behavior (TPB), which emphasizes the role of financial literacy as an antecedent that influences normative beliefs, subjective norms, and intentions, subsequently affecting financial behavior in MSME financial management. The study also supports the theory of corporate financial behavior, emphasizing that financial literacy, encompassing financial knowledge and skills, is a source of cognitive and heuristic biases. This facilitates practical financial management, particularly in making well-informed financial decisions. These results are consistent with previous research conducted by Andriyani and Sulistyowati (2021), Eferyn et al. (2022), Kurniawan and Christian Simon (2022), and Anisyah et al. (2021), all of which demonstrated a positive impact of financial literacy on financial management behavior. However, it is essential to note that our findings may differ from the research conducted by Adhliana et al. (2022) and Waty et al. (2021), potentially due to variations in research methodologies, mainly our study's focus on MSME actors.

The second hypothesis (H<sub>2</sub>) results indicate that MSME actors, especially micro and small enterprises (UMK), still lack a comprehensive understanding of fintech, including fintech knowledge, products, and services. These findings do not support the idea that technology, considered a situational factor influencing behavior, has a significant impact. These results are consistent with previous research conducted by Anisyah et al. (2021), Firlianti et al. (2023), Novianti and Retnasih (2023), and Haqiqi & Pertiwi (2022), all of which concluded that FinTech has no positive effect on MSME financial management behavior. However, it is essential to note that these findings do not align with research conducted by Risman et al. (2023) and Hijr (2022), which suggested that FinTech positively influences the behavior of MSME financial management. The differences in findings may be attributed to variations in research parameters and specific contexts examined in these studies.

The results of the third hypothesis (H<sub>3</sub>) indicate that the better the financial attitude of MSMEs, the more positively they engage in financial management. A favorable financial attitude reflects a positive outlook, financial control, and the ability to use financial resources effectively to meet life's needs. These findings align with the Theory of Planned Behavior, which suggests that attitudes toward specific behaviors can significantly influence an individual's intentions to undertake positive actions in the future. These test outcomes are consistent with previous research conducted by Hanasri et al. (2023), Aminah (2023), Putri and Siregar (2022), Khovivah and Muniroh (2023), and Triani and Wahdiniwaty (2019). These research findings consistently support the idea that financial attitudes have a constructive influence on the financial management behavior of MSMEs.

## **CONCLUSION**

Our study delved into the intricate dynamics of financial management behavior among Micro, Small, and Medium Enterprises (MSMEs) in the context of personal finance, corporate finance, and financial technology (Fintech). Our quantitative analysis revealed valuable insights into the factors influencing financial behavior in these enterprises. Firstly, we found that heightened financial literacy, encompassing knowledge of both personal and corporate finance, plays a pivotal role in shaping the financial management behavior of MSMEs. This supports personal and corporate financial behavior theories, highlighting the significance of cognitive biases, cognitive heuristics, and practical financial decision-making in driving better financial management practices. Secondly, our research indicated a strong positive relationship between a positive financial attitude and improved financial management behavior in MSMEs. The presence of a constructive financial attitude, characterized by financial self-control and a proactive approach to financial matters, aligns with theories of planned behavior, emphasizing the role of attitudes in shaping future financial actions.

However, it was also apparent that the influence of financial technology (Fintech) on the financial behavior of MSMEs was relatively limited. This result is attributed to the lack of understanding among MSME operators, particularly those managing small and micro-enterprises, regarding Fintech products, services, and their potential benefits in meeting financial needs. As a result, Fintech did not significantly affect the financial behavior of these businesses. Our findings emphasize the importance of fostering financial literacy and cultivating a positive financial attitude among MSMEs to enhance their financial management practices. Moreover, promoting greater awareness and understanding of Fintech could potentially unlock opportunities for improved financial behavior in these enterprises.

These insights are essential for policymakers, financial institutions, and business support organizations aiming to bolster MSMEs' financial management skills and practices. Tailored initiatives to enhance financial literacy, foster positive financial attitudes, and increase awareness of Fintech solutions can empower MSMEs to achieve better financial outcomes and contribute to sustainable growth. In summary, our study offers practical recommendations to advance the financial behavior of MSMEs, making a meaningful contribution to the development and success of these vital economic agents.

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