# THE ROLE OF FINANCIAL LITERACY AND FINANCIAL BEHAVIOR TOWARDS PERSONAL FINANCE PLANNING IN MSMEs

**Ekaningtyas Widiastuti [1], Sugeng Wahyudi [2]**

[1]Student DIM of Diponegoro University, widtyas@gmail.com, Indonesia
[2]Lecturer of Economic and Business Faculty Diponegoro University, sug_w@yahoo.com, Indonesia

## ABSTRACT

This research is focused on MSMEs in the Banyumas Regency area, to examine the role of financial literacy and financial behavior in the personal finance of businessmen and their employees. Data collection methods were in the form of questionnaires and interviews. This study used Convenience sampling technique, and there were 68 samples collected. The data analysis tool was multiple linear regressions.

The results showed that financial literacy had no effect on personal finance, and financial behavior had a significant effect on personal finance. But simultaneously that financial literacy and financial behavior affect the personal finance. Financial knowledge supported by the right actions and behavior in making the right decisions related to finance can achieve the results of planning and management of personal and business finances effectively and efficiently.

**Keywords:** financial literacy, financial behavior, personal finance

## 1. Introduction

Business competition is getting tougher. Only businesses that have competitive advantage and high consistency performance can survive and remain competitive. The role of Micro, Small and Medium Enterprises (MSMEs) in Indonesia is very important in providing great support for the government's efforts in overcoming the problem of unemployment and poverty. However, the problem that still hangs in most MSMEs in Indonesia is about the financial management of the businessmen. This problem arises because of the lack of financial knowledge and understanding on the businessmen and human resources owned by each MSME.

Finance knowledge and understanding will affect how a person can make plans, manage finances, and make decisions related to personal finance and will certainly affect his business

[1] Corresponding author. E-mail: widtyas@gmail.com

decisions. The ability to manage personal finances (in particular) has become increasingly important now (Gedmintiene and Visockaite, 2016 in Reswari, 2018), especially for businesses because it will be related to how they can manage their business finances.

Financial knowledge is known as financial literacy. Financial literacy is defined as financial knowledge possessed by someone with the aim of achieving prosperity (Lusardi and Mitchell 2007: 21, in Meutia, 2016). Based on the results of a survey conducted by the Financial Services Authority (FSA) related to financial literacy in 2013, the data showed that the level of financial literacy in the MSME group was only 15.68% (Anggraeni, 2015). In 2016, OJK conducted a National Literacy and Financial Inclusion Survey with 9,680 respondents, and showed the results that the financial literacy rate of the Indonesian people only reached 29.66%. Data from OJK shows that the level of financial understanding of the Indonesian people is still relatively low. Understanding financial literacy is not only a person can invest and save, but also how someone can manage their finances effectively and efficiently, so as to reduce their consumptive nature which can then affect and result in decreased business performance.

How much money a person has is not the main problem, but how well they make financial decisions and manage their financial condition. To make the right financial decisions, a person must have extensive knowledge and be able to practice good behavior related to finance. Personal finance is closely related to financial literacy and financial behavior (Altfest, 2007). Despite having good knowledge, people need to apply and make it as their behavior (Sayinzoga, et al., 2014).

The behavior of financial management that is owned by the MSMEs and their human resources is another matter of concern. Most MSMEs do not have a good behavior in terms of finances, characterized by low motivation to improve their ability to manage finances and by quickly think and feel easily satisfied with the results obtained (Humaira, 2018). They have not recorded income and expenses regularly and systematically, they have not set aside money for emergency needs, and they do not save money for long-term needs.

This research aims to improve financial literacy and financial behavior towards businessmen and their human resources so that they can plan and manage their personal finances, also change their mindsets so they can act appropriately in managing their finances, which will ultimately be beneficial for the financial interests of their businesses. The research focused on businessmen and MSMEs in Banyumas regency.

This research formulates targeted findings as follows:

1. Financial literacy affects personal financial planning. Increasing financial literacy will affect the personal financial planning of businessmen and their human resources at MSMEs in Banyumas Regency.
2. Financial behavior affects personal financial planning. Increasing financial behavior will affect personal financial planning at MSMEs in Banyumas Regency.
3. Financial literacy and financial behavior affect simultaneously on personal financial planning. Increasing both financial literacy and financial behavior will affect the personal financial planning of businessmen and their HR at MSMEs in Banyumas Regency.

4. Strategic efforts made by MSMEs to improve financial literacy and financial behavior in order to achieve appropriate personal financial planning.

The research model can be described as follows:

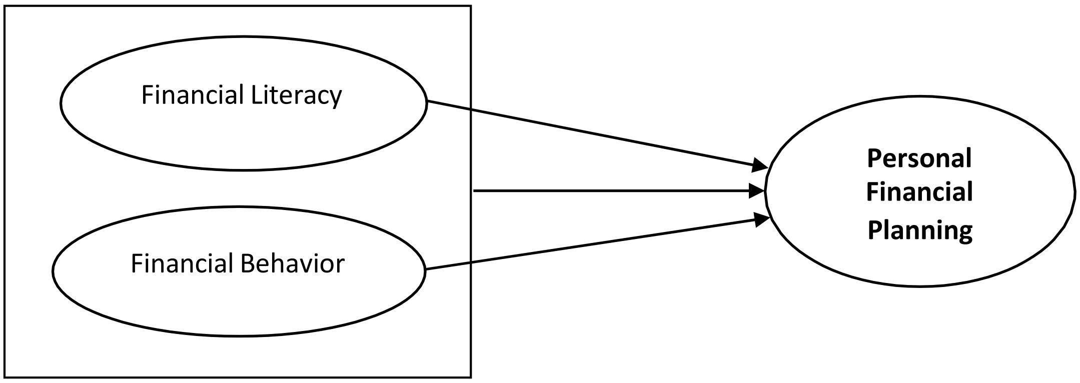


Figure 1. Research Model

## 2. Literature Review

### *2.1 Micro, Small and Medium Enterprises (MSMEs)*

Micro, Small and Medium Enterprises (MSMEs) are very important in their presence and in their roles in making a major contribution to employment and being able to survive the crisis in a country.

According to Law No.20 of 2008, MSMEs are small and medium-sized businesses that are active and productive businesses owned by individuals or businesses that are not subsidiaries. The MSME criteria are distinguished individually, including micro, small, and medium enterprises.

### *2.2 Financial Literacy*

According to Financial Services Authority or OJK (2013), financial literacy is a series of processes or activities to increase the knowledge, confidence and skills of consumers and the wider community so that they are able to manage finances better. Tyson (2010) argues that people should increase financial literacy because people who lack financial knowledge will makemore financial mistakes. Financial literacy comes from a person's personal financial knowledge and its application to personal finance. Financial literacy helps one to understand, to have confidence, and to have motivation to make wise financial assesments and decisions (Gachango, 2014 in Reswari 2018).

*2.3 Financial Behavior*

Financial behavior can be defined as human behavior that is relevant to money management (Xiao, 2008). According to Shefrin (2000) in Fitriarianti (2018) financial behavior is a study that studies how psychological phenomena affect financial behavior practiced in financial decision making.

Good financial knowledge can encourage people to form positive financial behaviors (Hilgert, et al., 2003). Xiao (2008) explained that financial behavior has a high influence on financial decision making, which can affect overall personal finance. Financial behavior is an individual action such as making records of income and expenses, investing, taking insurance, calculating, predicting and daring to face risks for decisions taken related to finance.

*2.4 Personal Finance*

The ability to manage personal finances has become increasingly important in the world today (Gedmintiene and Visockaite, 2016 in Reswari, 2018). Making a financial plan for personal needs requires time and accuracy. But this is very important and to achieve life and welfare goals. The desire to save, invest cannot be realized if you do not have personal financialplanning.

A financial plan is a written strategy designed to maintain good financial conditions and achieve financial targets. The financial plan function can control financial flows, improve quality of life and reduce uncertainty by anticipating financial problems and future needs. So that personal finance needs to be done in a planned, orderly and wise way to achieve the expected goals.

**3. Research Methodology**

*3.1 Population and Sample Collection Method*

The population of this study is MSMEs in the Banyumas Regency. Sampling in this study was conducted using non-probability sampling and convenience sampling techniques.

*3.2 Variable Operational Definition*

*3.2.1 Independent Variable (X)*

The Financial Literacy ($X_1$) variable consists of 3 multiple choice question items and it is measured by a measurement scale with a number of correct answers. The Financial Behavior ($X_2$) variable consists of 15 question items and it is measured using a Likert Scale: 1 (never) - 2 (rarely) - 3 (sometimes) - 4 (often) - 5 (always).

*3.2.2 Dependent Variable (Y)*

Personal Finance Planning (Y) consists of 26 question items and measured using a Likert Scale: 1 (strongly disagree) - 2 (agree) - 3 (neutral) - 4 (agree) - 5 (strongly agree).

*3.3 Types and Sources of Data*

The data used in this study are primary data, which are directly obtained from the source, namely businessmen and MSME employees, and secondary data are taken from MSMEs profiles. The data source is from the MSMEs owners (business actors) in Banyumas Regency.

*3.4 Data Collection Technique*

Data collection methods used in this study were in the form of Questionnaires, Interviews, and Literature Studies.

*3.5 Data Analysis Technique*

This study uses descriptive analysis and multiple linear regression analysis with the SPSS program. The SPSS program is used to analyze the effect or relationship between variables increasing financial literacy and financial behavior on personal finance planning.

## 4. Results

*4.1 Overview of Respondents*

*4.1.1 Characteristics of Respondents based on Gender*

Table 1. Description of respondents based on Gender

| Gender | Frequency | Percentage (%) |
|---|---|---|
| Male | 45 | 66 |
| Female | 23 | 34 |
| **Total** | **68** | **100** |

Based on table 1 it can be seen that the respondents are business owners. There are 45 male respondents or 66% and 23 female respondents or 34%. This shows that the majority of respondents in the study were dominated by male respondents.

*4.1.2 Characteristics of Respondents based on Age*

Table 2. Description of respondents based on Age

| Age (year) | Frequency | Percentage (%) |
|---|---|---|
| ≤ 30 | 5 | 7.35 |
| 31 - 40 | 18 | 26.48 |
| 41 - 50 | 23 | 33.82 |
| > 50 | 22 | 32.35 |
| **Total** | **68** | **100** |

Based on table 2, it can be seen that the majority of respondents aged between 41 to 50 year-old. There are 5 respondents who aged ≤ 30 year-old or 7.35% and there are 18 respondents who aged 31-40 year-old or 26.48%. Respondents aged 41-50 year-old are 23 respondents or 33.82%, and the rest respondents aged over 50 year-old were 22 respondents or 32.35%. This shows that the majority of respondents in this study are dominated by those who are in the settled ages (41-50 year-old).

### *4.1.3 Characteristics of Respondents Based on Last Education*

Table 3. The description of respondents based on their latest education

| **Education** | **Frequency** | **Percentage (%)** |
|---|---|---|
| SD (Elementary School) | 26 | 38 |
| SMP (Junior High School) | 19 | 28 |
| SMA (Senior High School) | 16 | 24 |
| D3/S1 (Associate Degree/Bachelor Degree) | 7 | 10 |
| **Total** | **68** | **100** |

Based on table 3, it can be seen that the most respondents have elementary education as their last education which are 26 respondents or 38%. There are 19 respondents who have unior High School as their last education or 28%. Respondents who have high school education as their last education are 16 respondents or 24%, and respondents who have Associate or Bachelor Degree as their last education are 7 respondents or 10%. This shows that the respondents in this study mostly had elementary school as their last education.

### *4.1.4 Characteristics of Respondents Based on Per Month Income*

Table 4. The description of respondents based on per month income

| **Income (per month)** | **Frequency** | **Percentage (%)** |
|---|---|---|
| < 1.000.000 | 21 | 31 |
| 1.000.000 – 2.000.000 | 28 | 41 |
| 2.000.000 – 4.000.000 | 14 | 21 |
| > 4.000.000 | 5 | 7 |
| **Total** | **68** | **100** |

Based on table 4, it is known that the majority of respondents (business actors) can get <Rp 1,000,000 income per month, there are 21 respondents or 31%. Respondents who can get Rp 1,000,000 - Rp 2,000,000 income per month are 28 respondents or 41% . Respondents who get Rp 2,000,000 - Rp 4,000,000 income per month are 14 respondents or 21% and respondents whoget > 4,000,000 income per month are 5 respondents or 7%. Based on these results, it appearsthat the majority of respondents are well-established businesses with an average income per month.

*4.2 Data Analysis Result*

After testing the validity and reliability as well as the classic assumption test and the results are done. Then,based on the results of calculations using the SPSS program, the results of the analysis are obtained as the following table:

Table 5. Results of Multiple Linear Regression Analysis

| Variable | B | t count | Sig. |
|---|---|---|---|
| Constant | 1,351 | 6,134 | 0,000 |
| Financial Literacy ($X_1$) | 0,040 | 0,279 | 0,781 |
| Financial Behavior ($X_2$) | 0,520 | 5,281 | 0,000 |
| $R^2$ | 0,368 | | |
| F count | 18,889 | | |
| Sig. F | 0,000 | | |

Based on the tests, it is obtained the following equation:
$Y_1 = 1{,}351 + 0{,}040\ X_1 + 0{,}520\ X_2$

*4.2.1 Coefficient of Determination (R2)*

Based on table 5, it can be seen that the coefficient of determination (R2) is 0.368 and shows the suitability of the model (goodness of fit). The value of 36.8% indicates that the regression equation model in this study is able to explain the relationship of the dependent variable (personal finance) and the independent variables (financial literacy and financial behavior) of 36.8%; which means that personal finance can be explained by financial literacy and financial behavior. While the remaining 63.2% is influenced and explained by other factors outside the model not mentioned or tested in this study.

*4.2.2 Simultaneous Testing (F Test)*

Based on table 5, it is known that the calculated F value (18,899) with a significance value (0,000) $\leq \alpha$ (0.05), which means that the regression equation model formed has a model accuracy(goodness of fit) or it can be said that the independent variableS (financial literacy) and financial behavior) simultaneously affect personal finance.

*4.2.3 Partial Testing (t Test)*

Based on the partial test results, it is shown in table 5 that the significance value of the Financial Literacy variable of 0.781 is greater than 0.05 means Financial Literacy has no partial effect on Personal Finance. While the significance value of the Financial Behavior variable is 0,000 means partially the Financial Behavior variable affects personal finance.

**5. Discussion**

*5.1 Effect of Financial Literacy on Personal Finance*

The analysis shows that financial literacy affects personal finance. Financial literacy is a series of processes or activities to increase the knowledge, beliefs and skills of consumers and the wider community so that they are able to manage finances better.

At MSMEs, most business actors as respondents have sufficient knowledge and good financial understanding. They can manage it appropriately and will secure their personal and business financial position. Financial knowledge consists of financial skills and mastery of financial tools. Ida and Dwinta (2010) in Humaira (2018) describe financial skills as a technique for making decisions in financial management behavior, such as preparing a budget and choosing investments. While financial tools are a means used in making financial management decisions such as checks, credit cards or debit cards. The knowledge they have does not affect them in planning their personal finances and business.

### *5.2 Effect of Financial Behavior on Personal Finance*

The analysis shows that financial behavior has a significant effect on personal finance. The behavior of financial management possessed by the MSMEs and their HR can influence them in planning and managing their personal and business finances. The better their actions in recording income and expenditure regularly and systematically, setting aside money for emergency needs, and saving money for long-term needs, the better the results of their financial planning and the more mature the management. Individuals who feel fulfilled, who have business that run smoothly, and who can survive until now pay more attention to financial planning and management. Having such behavior and thoughts will affect and produce good performance as individuals and good businesses in the future.

### *5.3 The effect of Financial Literacy and Financial Behavior simultaneously influences Personal Finance*

The results of the F Test analysis show that financial literacy and financial behavior simultaneously have a significant effect on personal finance. Financial literacy affects the way people think about financial conditions and influences strategic decision making in terms of finances and better management for business owners. Collaboration between financial literacy and financial behavior will affect the personal finance planning of MSME entrepreneurs.

Their financial literacy cannot affect the results of financial planning and management that they make. Knowledge must be supported by actions or behaviors so that they not only know and understand about finances, but most importantly how the motivation that arises encourages them to take action in planning and managing both personal and business finances.

### *5.4 Strategic Efforts to Improve Financial Literacy and Financial Behavior*

Business actors as MSME owners must have strategic planning as an effort that can be implemented to improve financial literacy and financial behavior. Strategic efforts that can be done in the form of science and technology transfer programs, assistance and training related to finance such as accounting knowledge and practices, budgets, bookkeeping, investment, and howto get capital through bank credit. Most MSME business owners already have sufficient financial knowledge, but must be supported by actions in making financial-related decisions such as financial planning, management, and control (recording of revenues and expenses), so that effective and efficient personal financial planning will be achieved.

## 6. Conclusion

After reviewing and analyzing the effect of financial literacy and financial behavior on personal finance at MSMEs in Banyumas, it can be concluded that:

1. Financial literacy has no effect on personal finance. This means that the higher or lower financial literacy cannot affect personal finance.
2. Financial behavior affects personal finance. This means that the better a person's financial behavior, the better the management of his personal finances.
3. Financial literacy and financial behavior simultaneously affect personal finance. This means that financial behavior which is supported by high financial knowledge will give much better effect on personal finance management.

Some recommendations related to the results of this research are as follows:

1. Increasing financial literacy needs to be followed by availability of access to financial institutions, products and / or services that are in line with the needs and abilities of thecommunity so that they can be utilized as good as possible.
2. The need for knowledge and technology transfer related to finance so that businesses can increase understanding in planning and managing finances.
3. The need to motivate business actors to be able to make the right decisions related to their finances, such as in recording the receipt and expenditure of business finances, should be accompanied by the archieve of supporting documents.

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