The Effect of Financial Literacy towards Financial Management Behavior of MSME: A Study on MSME Administrators in Karawang Regency

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Abstract. Financial literacy is not limited to the definition of knowledge, skills and confidence towards the institution and financial products and systems only, but also the attitude and behavior that can give an effect in improving the financial literacy. The purpose of this study was to determine the effect of financial literacy on financial management behavior of MSME in Karawang Regency. Respondents in this study were 100 MSME administrators in Karawang Regency through a questionnaire. Based on the results, financial literacy effects on financial management behavior of MSME in Karawang Regency. The indicators used to measure financial literacy are basic knowledge of finance, savings and loans, insurance and investment. The indicators of basic knowledge of finance and investment have significant effects towards financial management behavior of MSME, while savings & loans and insurance doesn't effects on financial management behavior of MSME.

Keywords: Financial Literacy · Financial Management Hehavior · Micro Small and Medium Enterprise (MSME)

1 Introduction

Financial Service Authority (*Otoritas Jasa Keuangan*) puts an improvement program for financial literacy and access enhancement for the poeple towards the formal financial industry as one of the priority programs[1]. Financial literacy is a combination of awareness, knowledge, skill, attitude, and behavior of an individual in making a healthy financial decision which later will reach a financial welfare[2, 3]. Financial literacy is not limited to the definition of knowledge, skill and confidence towards the institution and financial product and system only, but also the attitude and behavior that can give an effect in improving the financial literacy which later can encourage the people welfare. There are 3 (three) dimensions of financial literacy, namely: 1) Calculation skill; 2) Understanding about basic finance; and 3) Attitude towards the financial decision[4]. The knowledge in financial lieracy context includes knowledge, education, and information regarding the finance and its source, banking, deposit, credit, insurance, and tax[5]. The financial attitude and behavior are reflected in one's ability in deciding the financial target, arranging the financial planning, managing the finance and taking a good-quality financial decision in using the financial service and product.

Micro, Small, and Medium Enterprise (MSME) plays a major role in the economy of people in Indonesia, where the government looks into the importance of MSME exixtence. To keep the existence of MSME, even increasing, an adequate knowledge and skill are needed. With good understanding of knowledge and financial literacy, they will be able to manage the finance as effective as possible. MSME needs to know how to manage the finance as well as technique in investment[6, 7].

Today's economy condition demands the MSME players to make a faster yet more complex financial decision. The lack of financial literacy, can cause the low access to the financial institution which later will give an error in wealth and revenue allocation[8]. A low Financial literacy will cause to the limited access towards the capital sources which solely relies on banking. While the products from others funding instituions are less known.

Other problems caused by the low financial literacy for the MSME will impact the business development, even the economy in national scale. National economy will be tough from world financial crisis if the people in it, understand about the financial system[9].

2 Literature Review and Hypoteses Development

2.1 Financial Literacy

Financial literacy is a measurement towards one's understanding about the financial concept, and possesses the ability and confidence to arrange the private financial through the precise short-term decision making, long-term financial planning, and puts attention to the events and conditions of the economy. Financial literacy includes the awareness and knowledge towards the financial instruments in business world and its application in business and life[10]. Financial literacy of an individual later develops into a financial skill, where the skill itself is defined as an ability in applying the financial knowledge in daily activities[11].

2.2 Financial Management

Financial management behavior is related to the financial responsibility of someone regarding the way to manage their finance. Money management is a process in using the money assets[12]. With a good money management, people will not get trapped with the unlimited needless behaviors. The emergence of financial management behavior is an impact of one's activity in fulfilling the life needs in line with the income level[13]. One's financial management behavior can be seen from 4 (four) things below:
1) Consumption, is an expense by the household for various goods and service.
2) Cash flow, is the main indicator from the financial health, means that the measurement of someone's ability to pay any kind of cost he has.
3) Savings, is part of income which is not consumed for certain period.
4) Debt management, is one's ability in employing the debt to not to make or employ the debt to improve the welfare[14].

2.3 Hypotheses

The hypotheses in this study are as follows:

H : Financial literacy affects on financial management behavior of MSME
H_a : The basic knowledge of financial affects on financial management behavior of MSME
H_b : Savings and loans affects on financial management behavior of MSME
H_c : Insurance affects on financial management behavior of MSME
H_d : Investment affects on financial management behavior of MSME

3 Research Method

To reach the targeted aims, the method used in this study is descriptive and verificative in form of survey assessment. The data collection technique used in this study is questionnaire, which is the closed and structured questionnaire, which means that the questions or statements restrict the respondents from giving answers and opinions based on their own words due to the fact that the answers are provided already.

The respondents are 100 MSME Administrators in Karawang Regency.

4 Result and Discussion

4.1 Result

Descriptive Statistics. The result of the descriptive statistics test is as follows:

Table 1. The Result of Descriptive Statistics Test.

Variable	N	*Mean*	*Std. Dev*	Min.	Max.
Basic Knowledge of Financial	100	12.88	1.976	8	16
Savings and Loans	100	8.79	1.866	4	12
Insurance	100	8.39	1.808	5	12
Investment	100	12.58	2.543	7	16
Financial Management	100	29.37	5.908	18	38

Source: processed data (2019)

Table 1 shows that N in this study are 100 MSME Administrators in Karawang Regency. The financial literacy is measured using 4 (four) indicators, namely basic knowledge of financial, savings and loans, insurance, and investment.

Multiple Linear Regression. The result of multiple linear regression testing following the classic assumption testing whose results are in accordance with the regression calculation rule in this study is as follows:

Table 2. The Result of Multiple Linear Regression Test.

Variabel	Unstandardized Coefficients		Standardized Coefficients
	B	**Std. Error**	**Beta**
(Constant)	3.299	3.213	
Basic Knowledge of Financial	.472	.253	.158
Savings and Loans	.351	.270	.111
Insurance	.296	.281	.091
Investment	1.147	.229	.494

Source: processed data (2019)

Table 2 shows that, it can be described that constant (a) value of 3.299 means that, if the financial literacy is 0, the financial management behavior is 3.299. The regression coefficient of basic knowledge of finance is 0.472, which means that, if the other indicators' value is constant and the value of basic knowledge of finance increases by 1, the financial management behavior will increase by 0.472. The regression coefficient of savings and loans is 0.351 which means that, if other indicators' value is constant and the value of savings and loans increases by 1, the financial management behavior will increase by 0.351. Then, the regression coefficient of insurance is 0.296 which means that, if other indicators' value is constant and the value of insurance increases by 1, the financial management behavior will increase by 0.296. And the regression coefficient of investment is 1.147, which means that, if other indicators' value is constant and the value of investment increases by 1, the financial management behavior will increase by 1.147.

From the results, it is shown that each variable has positive direction. The basic knowledge of finance, savings and loans, insurance and investment have positive directions towards financial management behavior of MSME.

4.2 Hypotheses Testing

t-test. To test the extent of the impact of an independent variable, individually in describing the variation of dependent variable, t-test is used. The result of t-test is shown below:

Table 3. The Result of t-test.

Variable	t	Sig.
(Constant)	1.027	.307
Basic Knowledge of Financial	1.863	.066
Savings and Loans	1.299	.197
Insurance	1.054	.295
Investment	5.017	.000

Source: processed data (2019)

Table 3 shows that, it is obtained the result where the basic knowledge of finance variable shows a Sig. value of 0.307 > 0.050. Based on that, it can be concluded that the basic knowledge of finance doesn't affect significantly on financial management behavior of MSME. The variable of savings and loans shows a Sig. value of 0.066 < 0.100. Based on the result, it can be concluded that the savings and loans significantly

affects on financial management behavior of MSME. The variable of insurance shows a Sig. value of 0.197 > 0.050. Based on the result, it can be concluded that the insurance doesn't affect significantly on financial management behavior of MSME. And the variable of investment shows a Sig. value of 0.000 < 0.050. Based on the result, it can be conluded that investment significantly affects on financial management behavior of MSME.

F-test. Basically, F-test shows if each independent variable inputted to the model has an impact towards the dependent variable. The result of this testing is:

Table 4. The Result of F-test.

Variable	F	Sig.
Financial Literacy towards the Financial Management Behavior	22.968	.000

Source: Processed data (2019)

Table 4 shows that, it is obtained that the financial literacy shows a Sig. value of 0.000 < 0.050. Based on the result, it can be concluded that the financial literacy significantly affects on financial management behavior of MSME.

4.3 Discussion

Financial literacy is a combinantion of awareness, knowledge, skill, attitude and behavior of someone in making a healthy financial decision which in the end, reaches an individual financial welfare[2,3]. The basic principals of financial literacy are, 1) Planned and measured. The conducted activity has a concept in line with the targets, authority policy and the policy of financial service players and indicator to obtain information for financial literacy improvement; 2) Achievement-oriented. The conducted activity is able to reach the target of financial literacy improvement by optimizing the current resources; 3) Sustainable. The activity conducted simultaneously is aimed to reach the planned target as well as have a long-term aspect.; and 4) Collaboration. The activity involves all of the stakeholders in the implementation of the activity.

In this study, financial literacy is measured using 4 (four) indicators, namely basic knowledge of finance, savings and loans, insurance and investment. The result shows that the basic knowledge of finance and investment significantly affect on financial management behavior of MSME. Improvement of financial literacy will improve the understanding towards the private financial, especially the investment area[15].

And then the result in this study shows that the financial literacy significantly affects on financial management behavior of MSME. This is in line with the result of prior studies showing that the financial literacy has a significant effect towards financial management behavior[16,17,18,19]. It means that the better the knowledge and skill of individual in implementing the financial aspects, the wiser the financial behavior and more effective the financial management.

5 Conclusion and Suggestion

5.1 Conclusion

Based on the result, it can be concluded that the financial literacy significantly affects on financial management behavior of MSME in Karawang Regency. The indicators used to measure financial literacy are basic knowledge of finance, savings and loans, insurance and investment. The indicators of basic knowledge of finance and investment have significant effects on towards the financial management behavior of MSME, while savings & loans and insurance doesn't effects on financial management behavior of MSME.

5.2 Suggestions

To follow up the result of the study, workshop or seminar can be arranged for the MSME regarding the financial literacy which will give effect to financial management behavior of MSME, especially in Karawang Regency. Furthermore, for future studied can conduct a study with a wider objects, by involving respondents more than what has been done in this study. In addition, future studies can use a more variables, such as entrepreneurial interests, knowledge of business interests and other variables.

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