



The Strategic Role Of Entrepreneurial Financial Literacy, Proactive Seeking Financial Access And Their Impact On SME Performance

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Abstract

This research is motivated by the instability in the performance of SMEs caused by business capital problems. Theoretical and empirical studies were carried out to solve the problem, by building three hypotheses. The sample used in this study were 112 SMEs in Cirebon Regency. The analysis technique used is structural equation modeling using AMOS software. The results of the study indicate that entrepreneurial financial literacy has an effect on the SMEs performance, entrepreneurial financial literacy has a weak effect on proactive seeking financial access and proactive seeking financial access has an effect on the SMEs performance. The theoretical and managerial implications are further discussed in this study.

Keywords: *Entrepreneurial Financial Literacy, Proactive Seeking Financial Access, SMEs performance*

Abstrak

Penelitian ini dilatarbelakngi oleh adanya ketidakstabilan kinerja UKM yang disebabkan oleh masalah modal usaha. Telaah teoritis dan empiris dilakukan untuk memecahkan masalah tersebut, dengan membangun tiga hipotesis. Sampel yang digunakan dalam penelitian ini sebanyak 112 UKM di Kabupaten Cirebon. Teknik analisis yang digunakan adalah structural equation modeling dengan menggunakan software AMOS. Hasil penelitian menunjukkan bahwa literasi keuangan wirausaha berpengaruh terhadap kinerja UKM, literasi keuangan wirausaha berpengaruh lemah terhadap proaktif mencari akses keuangan dan proaktif mencari akses keuangan berpengaruh terhadap kinerja UKM. Implikasi teoritis dan manajerial lebih lanjut dibahas dalam penelitian ini.

Kata kunci: Literasi Keuangan Wirausaha, Proaktif Mencari Akses Keuangan, Kinerja UKM

INTRODUCTION

Small and Medium Enterprises (SMEs) have long been understood to have a significant role in the economic development of a country (Charoenrat & Harvie, 2014), contribute to innovation and economic development (Audretsch et al., 2009). Specifically, the existence of SMEs is believed to be able to contribute to poverty alleviation efforts through job creation (Agyapong, 2010; Capital & Adomako, 2015). The existence of SMEs cannot be doubted because they have proven to be able to survive and become the driving force of the economy, especially after the economic crisis. However, SMEs in developing countries face a number of problems such as the absence of adequate and timely banking financing, limited capital and financial knowledge and lack of capacity to identify new financial products. (Capital & Adomako, 2015; Aribawa, Atma, & Yogyakarta, 2016; Layaman et al., 2020).

This classic problem causes SMEs to often experience delays in their development, making it difficult for SMEs to compete with large companies (Abor & Quartey, 2010). Based on research conducted by Wise, (2013), SMEs in the creative industry tend to have a short-term orientation in making decisions in their business. This can be seen from the absence of the concept of continuous innovation and inconsistent core business activities. In the end, the development of long-term performance of companies engaged in SMEs tends to be stagnant and not well-directed.

The problems mentioned above are also experienced by SMEs in Cirebon Regency, for example, Trusmi Cirebon batik. The current condition is that the Trusmi Batik industry is sick, in other words, the sustainability of Trusmi's batik business is under threat. There are two main problems experienced by batik entrepreneurs in Trusmi. **First**, the batik showroom market in Trusmi is almost dominated by batik products from outside Cirebon such as Pekalongan, the comparison is 70% Pekalongan batik and 30% local batik from Trusmi. (Menda, 2016). **Second**, the heaviest capital is felt by small crafters because the crafters do not get direct payments from the customer. Payment for orders is only received by craftsmen after a few weeks of delivery of goods, so during this process of waiting for a return on investment, production usually stagnates (Masina, 2012). More according to Masina, (2012), Citing a statement from the Head of the Department of Industry and Trade, Cirebon Regency, he said that the issue of business capital assistance for Cirebon batik craftsmen is indeed quite difficult to be pushed by the government, because of the 402 batik craft business units, most of them are not bankable.

Therefore, strategic efforts are needed to improve the performance of SMEs. One way that can be done is to enrich the knowledge of SME players on financial knowledge so that their management and accountability can be better accounted for as befits a large company.

According to resource-based theory, financial resources are the key factor for the acquisition and configuration of other resources and an entrepreneur needs to master financial literacy to manage these resources. (Brinckmann & Hoegl, 2011; Purnomo, 2019). Researchers and policy makers in both developed and developing countries recognize that financial literacy of entrepreneurs is critical to the formation and survival of SMEs (Wise, 2013; Hussain et al., 2018; Ye & Kulathunga, 2019). A financially literate entrepreneur is also a key principle of entrepreneurship as it enables entrepreneurs to make decisions and activities that all have financial consequences (Li & Qian, 2019). Entrepreneurs become vulnerable to information asymmetry if complexity in financial markets is not matched by a commensurate growth in financial

literacy (Barte, 2012). At the macroeconomic level, small businesses are the backbone of many countries and when the financial literacy skills of entrepreneurs are not sufficient, the company's operations become more risky (Dahmen & Rodríguez, 2014).

Contingency theory also provides a relevant theoretical framework for examining the relationship between entrepreneur financial literacy and microenterprise performance (Ahmad & Shah, 2020). Contingency theory seeks to identify important variables assumed to affect organizational performance by operationalizing and measuring these variables and determining their effect on performance (Rauch et al., 2009). In line with the theoretical advances of contingency theory, this study seeks to show that the performance and success of micro-enterprises depends on the interaction between financial literacy and financial access.

LITERATURE REVIEW

Entrepreneurial Financial Literacy

The entrepreneurial managerial perspective defines an entrepreneur as a person who organizes, manages and actively controls the affairs of a unit/company that combines the factors of production for the provision of goods and services, while literacy is defined as the ability to read and write as well as knowledge and competence in a particular area (Sabatini et al., 2013). Therefore entrepreneurial financial literacy is defined as a combination of an entrepreneur's understanding of the concept of financial products, their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to turn for help, and to take other effective actions to improve their company's financial well-being (Miller et al., 2009).

Wise (2013) defines entrepreneurial financial literacy as the ability to read, analyze, manage and communicate about personal financial conditions that have an impact on company success. This ability to see financial options, discuss finance and financial issues to overcome the anxiety of future plans that are full of uncertainty.

Oseifuah (2006), There are several key elements of financial literacy skills and knowledge that are often quoted from the literature:

- Mathematical literacy and standard literacy as basic calculations and comprehensive skills.
- Financial understanding of the natural form of money, how to use it, and the consequences of consumer decisions.
- Financial competencies such as understanding the ultimate future of financial services, attitudes to spending and saving money, understanding financial records and appreciating the importance of reading and managing them, being aware of the various risks associated with financial products and appreciating the relationship between risk and return.
- Financial responsibility, the ability to make appropriate personal life choices about financial issues, understanding consumer rights and responsibilities, the ability and confidence to find out if something is going wrong.

An entrepreneur who understands financial literacy will know about the most suitable financing and financial management options for his/her business at various stages of its business growth, know where to get the most suitable products and services and interact with confidence with product and service suppliers (Wamiori, Namusonge, & Sakwa, 2016; Onyiego, Namusonge, & Waiganjo, 2017). Entrepreneurs who understand financial literacy will manage resources more wisely, use financial information more intelligently thereby increasing the profitability of their companies.

Financial literacy also increases participation in financial markets which facilitates asset accumulation and consumption that is more efficient and provides access to wider sources of funding (Rooij et al., 2011). Therefore, financial literacy is related to debt and investment literacy. Financial literacy also affects overall access to and utilization of various financial services. General measures of financial literacy include financial management, debt, savings, insurance and investment literacy.

Proactive Seeking Financial Access

Access to finance is defined as the ability of individuals, households, entrepreneurs and companies to access and utilize various financial services if they choose to do so (Adomako et al., 2015). Access to finance is an important determinant of the performance of micro-enterprises as it provides them with working capital, encourages greater enterprise innovation and dynamism, enhances entrepreneurship, promotes more efficient asset allocation and enhances firms' ability to exploit growth opportunities (Beck & Demirguc-kunt, 2006). Providing broad access to financing for eligible companies has a significant impact on economic growth. On the other hand, Proactive behavior refers to the active efforts made by individuals to influence changes in their environment. An entrepreneur is a person who has a proactive attitude. (Naz et al., 2020). Therefore, proactively seeking access to finance refers to the behavior of an entrepreneur who actively seeks access and financial resources. Such entrepreneurs will be able to anticipate and seek new sources of finance.

When access to corporate finance is limited, economic and social opportunities are also limited, enterprise creation and growth are controlled, households and firms are more vulnerable to threats, and payments are more expensive and less secure. Access to finance increases financial inclusion thereby contributing to the deepening of the financial sector and overall economic growth. Financial inclusion aims to draw the unbanked population into a formal financial system that allows them to access a variety of financial services including savings, payments, money transfers and credit and insurance (Hannig & Jansen, 2010).

SME Performance

Performance is the result of carrying out work (Layaman et al., 2021). From the perspective of resource-based theory, all enterprises, including SMEs, are founded to achieve the performance of certain goals. Therefore, company performance is defined as the company's ability to achieve the planned results. Company performance is measured by the output achieved and includes results related to financial performance, market performance and returns to shareholders (Wamiori et al., 2016). Firm performance is commonly used in strategic management research and is often used as the dependent variable. However, research on company performance still has differences of opinion regarding the size and indicators used to measure it. But in general, company performance is measured by indicators that include financial and non-financial.

The indicators included in the financial indicators include profitability, return on assets (ROA), return on investment (ROI), return on equity (ROE), return on sales (ROS), market share, and operational efficiency. Meanwhile, non-financial indicators include job satisfaction, organizational commitment, employee turnover and employer satisfaction (Chong, 2008). The challenge in measuring the performance of SMEs is that small companies often consider financial performance measures to be confidential, and keep them from public scrutiny (Zulkifli & Perera, 2011).

Entrepreneurial Financial Literacy and SME Performance

The company's ability to recognize and access financial resources will have an impact on the company's growth rate (Adomako et al., 2015). Ownership of financial resources and the habit of SME owners to make financial reports will have an impact on the overall success of the business (Dahmen & Rodríguez, 2014). Furthermore, entrepreneurs who are literate in financial loans have an effect on company performance (Chepngetich, 2016), There is a strong positive relationship between financial literacy and financial performance (Kimunduu, Erick, & Shisia, 2016).

H1: Entrepreneurial financial literacy affects the SMEs performance

Entrepreneurial Financial Literacy and Proactive Seeking Finance Access

Empirical research shows that access to finance is a growth barrier for SMEs (Beck & Demirguc-kunt, 2006). SMEs that cannot access financial resources are a primary factor in business failure and weaken business performance, therefore entrepreneurs who are business development-oriented are able to access financial resources (Fatoki (2012). Entrepreneurs who are financially literate have an impact on the ease of accessing financial resources (Adomako et al., 2015) and encourage savings account ownership (Jamison, Karlan, & Zinman, 2014). The results of Hussain et al., (2018) show that increasing financial literacy has succeeded in reducing monitoring costs and serves to optimize the company's capital structure which has a positive impact on the growth of SMEs.

H2: Entrepreneurial financial literacy affects proactive seeking financial access

Proactive Seeking Financial Access and SME Performance

Access to finance is a key determinant of a company's financial performance. Companies have little access to finance, will hinder the birth and growth of SMEs. Access to finance enables corporate business managers to expand their business, providing them with working capital, encouraging greater enterprise innovation and dynamism, enhancing entrepreneurship (Wamiori et al., 2016). Other research has found that access to non-bank sources of credit and tax incentives supports SME performance by lowering the opportunity costs of riskier projects (Cheong et al., 2020).

H3: proactively seeking financial access affects the performance of SMEs

Based on the literature review and theoretical above, the model in this study is as follows:

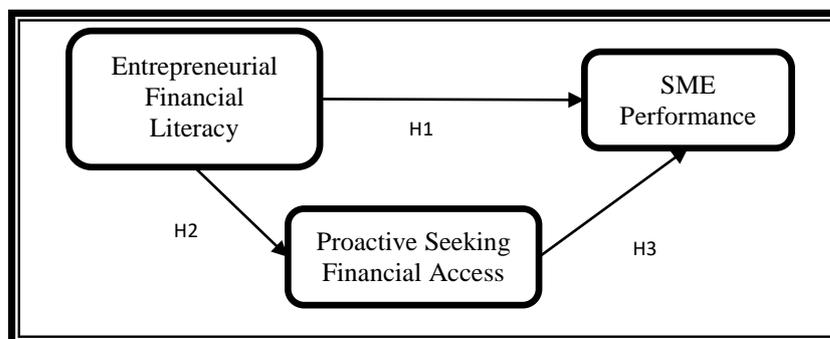


Figure 1. Research model

METHODE

This research was conducted in the Cirebon Regency area, precisely in the Plered sub-district which is the concentration of the Cirebon Trusmi batik entrepreneurs gathering. The population of this research is all batik entrepreneurs, totaling 402 people in Trusmi, Cirebon Regency. The sampling technique is using purposive sampling. Determination of the sample in this study with certain considerations, namely the selected samples are: 1) Entrepreneurs who produce typical Cirebon batik, 2) Operate or have offices in the research area coverage. In this study, the number of samples used was 112 respondents (where data processing with SEM required samples between 100-200 samples for the maximum likelihood estimation technique).

Measurement of research variables and indicators used in this study can be seen in the following table:

Table 1. Measurement of Research Variables and Indicators

Variable	Measurement	Indicators
Entrepreneurial financial literacy is defined as the combination of an entrepreneur's understanding of the concept of financial products, their ability and confidence to appreciate financial risks and opportunities, to make informed choices, to know where to go for help, and to take other effective actions to improve financial well-being. their company (Miller et al., 2009).	Entrepreneurial financial literacy is measured by a measurement scale, where 1 indicates "strongly disagree" and 10 indicates "strongly agree"	<ol style="list-style-type: none"> 1. Understand financial management 2. Savings literacy 3. Debt literacy 4. Investment literacy 5. Insurance literacy
Proactive seeking financial access is defined as the ability of individuals, households, entrepreneurs and companies to seek, access and utilize various financial services if they choose to do so. (Adomako et al., 2015).	Proactive seeking financial access is measured by a measurement scale, where 1 indicates "strongly disagree" and 10 indicates "strongly agree"	Utilization of: <ol style="list-style-type: none"> 1. Loans 2. Savings 3. Insurance 4. Investment 5. Account Transactions 6. Formal vs. informal sources of finance
SME performance is defined as the company's ability to achieve the planned results. (Wamiori	SME performance is measured by a measurement scale, where 1 indicates "strongly disagree" and	<ol style="list-style-type: none"> 1. There is work that is planned and goes according to the work plan 2. Frequent work errors that

Variable	Measurement	Indicators
et al., 2016).	10 indicates "strongly agree"	cause repetition 3. Sales growth 4. There is a decrease in fixed costs 5. Ability to anticipate production if demand increases 6. Timeliness guarantee to customers 7. Conformity of the product with the specifications offered

The measurement tool that will be used in this study uses interval data measurements. Data in the form of intervals can be generated by a technique, namely bipolar adjective. This scale is a refinement of the so-called semantic data. To test the model and hypotheses used SEM analysis.

RESULT AND DISCUSSION

Respondents in this study were batik entrepreneurs located in Plered District, Cirebon Regency, which included Panembahan Village, Sarabau, Trusmi Kulon, Trusmi Wetan and Kaliwulu Village. The questionnaires were distributed by five surveyors. A surveyor is in charge of one Village. The distribution and filling of questionnaires is carried out by being accompanied by surveyors, with the hope that filling out the questionnaires is more precise. The questions contained in the questionnaire items that if not understood by the respondents were explained by the surveyors. In more detail, the results of the distribution and collection of the questionnaires are summarized in the following table:

Table 2: Description of Questionnaire Distribution

No	Distribution of Batik Business Units by Village	Number of Questionnaires distributed	Number of Defective Questionnaires	Number of Questionnaires that can be analyzed
1	Trusmi Kulon	38	2	36
2	Trusmi Wetan	26	1	25
3	Kaliwulu	17	1	16
4	Kalibaru	16	1	15
5	Kalitengah	36	2	34
Amout		133	7	126

Source: Primary data processed.

Researchers prepared 150 questionnaires for batik entrepreneurs in the Plered and Tengah Tani sub-districts. The number of questionnaires that were successfully distributed were 133 questionnaires. The collected questionnaires were checked first regarding the completeness of filling out the questionnaires. There were 7 respondents whose answers to the questionnaire were the same, so these respondents were

eliminated and not included in further data collection. Therefore, the amount of data that was analyzed further in describing the data was 126 respondents.

The requirements for processing data through SEM with AMOS software have an initial assumption that the data must be normally distributed. Therefore, before the data is processed further for hypothesis testing, data normalization must be done first. Researchers normalize the data by removing gradually the data that has the largest mahalanobis so that normality can be achieved (Ghozali, 2011). This technique is carried out with the consideration that the mahalanobis value is greater than the required chi-square value indicating the presence of outliers that can interfere with achieving a normal data distribution. Data deletion is stopped when the sample is 112 respondents, taking into account the adequacy of the sample.

After the data is normally distributed, the next step that the researcher takes is to perform a factor confirmatory test for both exogenous and endogenous constructs.. Based on the results of confirmatory analysis, the indicators x5, x7, x8, x14 and x15 are less than 0.5. Therefore, the indicator was dropped from the next analysis. After confirmatory analysis and valid construct indicators have been carried out, the next step is to estimate the model which can be seen in the image below. These results indicate that the feasibility indices of models such as AGFI, GFI, TLI and CFI show that the model is fit.

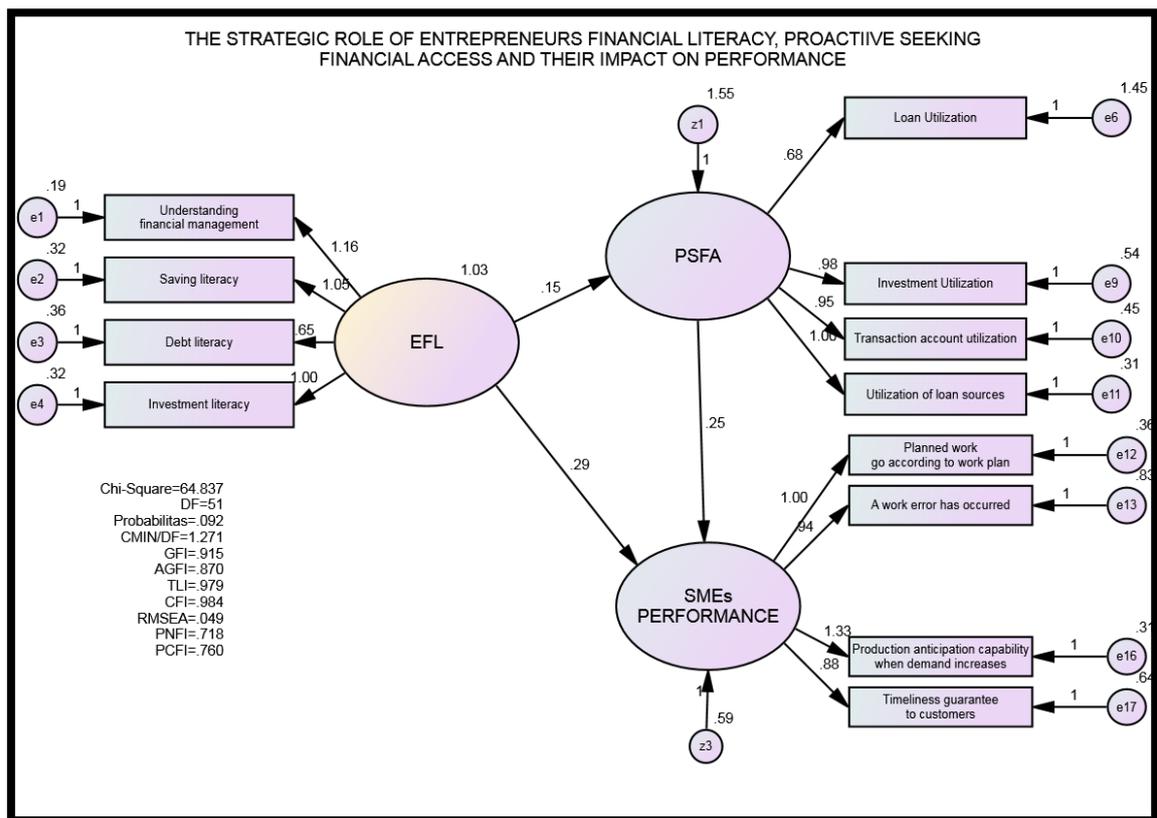


Figure 2. Full Model

After the model is declared fit, the next step is to test the hypothesis. This test is based on the final output of the full SEM model of the empirical research model. According to (Ghozali, 2011) the regression weight gives the magnitude of the

unstandardized and standardized coefficient values for the OLS regression equation. The CR value is the same as the t value in the OLS regression, while P is the same as the significance probability level. Based on the regression weight table, it is determined whether the hypothesis or relationship between the two latent variables is accepted or rejected, as presented in the table below:

Table 3. Regression Weights SEM Relationship Between Variables

			Estimate	S.E.	C.R.	P	Label
PSFA	<---	EFL	.152	.126	1.205	.228	
SMEs_PERFORMANCE	<---	EFL	.293	.085	3.459	***	
SMEs_PERFORMANCE	<---	PSFA	.250	.069	3.619	***	

Source: AMOS output

The influence of entrepreneurial financial literacy on the SMEs performance

Based on table 3 above, it can be concluded that entrepreneurial financial literacy has a positive effect on the performance of SMEs. Thus hypothesis 1 is proven. This study succeeded in confirming the relationship between entrepreneurial financial literacy and SME performance. An entrepreneur who is literate about financial knowledge will have an impact on improving his company's business performance. These empirical results are the same as the results of several researchers such as Eresia-Eke & C., (2013); Jacqueline Siekei, Wagok, & Kalio (2013); Dahmen & Rodríguez (2014); Adomako et al., (2015); Chepngetich, (2016) and Kimunduu et al., (2016).

The effect of entrepreneurial financial literacy on proactive seeking financial access

Table 3 above shows that entrepreneurial financial literacy has a weak effect on proactive seeking financial access. Thus this hypothesis is not proven. What causes this is the possibility that in reality many entrepreneurs receive additional offers of business funds from various financial institutions. Therefore, it is not entrepreneurs who are proactive in seeking access to business funding sources, but financial institutions that are very active in channeling their funds. This study resulted in a weak influence between entrepreneur financial literacy and proactive seeking financial access. These results support the opinion Xu & Zia (2012) and Jamison, Karlan, & Zinman (2014). However, this contradicts the results of research by Adomako et al., (2015) who found that financial literacy and financial access had a significant positive effect.

Effect of proactive seeking finance access on SME performance

Based on table 3 above, it shows that the more proactive entrepreneurs seek to seek financial access, the higher the performance of SMEs. Thus hypothesis 3 is proven. This research has also succeeded in proving that proactive seeking financial access has an effect on business performance. This result implies that entrepreneurs who are proactive in seeking access to finance will be able to improve their business performance. The results of this study are the same as those of Fatoki (2012) and Wamiori et al., (2016) who found empirical evidence that access to finance is the key to entrepreneurial success in improving business performance. The same thing was also stated by Beck & Demirguc-kunt (2006) that often access to financial institutions is a barrier factor for SMEs to improve their performance. When this factor is facilitated, it

will allow the performance of SMEs to increase. The complete results of testing the research hypothesis can be seen in the following table:

Table 4. Conclusion of the Hypothesis

Hypothesis		Conclusion (Index CR)
H 1	Entrepreneurial financial literacy affects SME performance	Accepted/Significant (3,459)
H 2	Entrepreneurial financial literacy affects proactive seeking finance access	No Significant (1,205)
H 3	Proactive seeking finance access affects SME performance.	Accepted/Significant (3,319)

These results indicate that building the SMEs performance by increasing entrepreneurial financial literacy. The performance of SMEs is directly affected financial literacy of entrepreneurs and is directly influenced by their proactive seeking financial access. Therefore, like it or not, batik trusmi entrepreneurs must continue to be literate in financial knowledge. This will make an entrepreneur analyze his business and financial conditions so that the production carried out can at least reach BEP.

CONCLUSION

The results showed that entrepreneurial financial literacy had a positive effect on SME performance. Entrepreneurs who are financially literate will improve the performance of SMEs. Therefore, the more literate entrepreneurs are on financial knowledge, the higher the performance of SMEs. The results also show that proactive seeking financial access can mediate between entrepreneurial financial literacy and the performance of SMEs. This result implies that the higher the financial literacy of entrepreneurs, the more proactive they are in seeking access to finance, which in turn has an impact on improving the performance of SMEs.

Theoretically, this study succeeded in confirming the relationship between entrepreneurial financial literacy and SME performance. An entrepreneur who is literate about financial knowledge will have an impact on improving the SME performance of his company. The results of this study produce a weak influence between entrepreneurial financial literacy and proactive seeking financial access. These results contradict the results of the study which found that financial literacy and financial access had a significant positive effect. This study also succeeded in proving that proactive seeking financial access has an effect on SME performance. This result implies that entrepreneurs who are proactive in seeking access to finance will be able to improve their business performance.

The implications of the results of this study for the Regional Government (PEMDA), Bank Indonesia (BI) and the Otoritas Jasa Keuangan (OJK), namely by streamlining financial literacy activities among SMEs. These activities are more implementable for entrepreneurs such as training on making financial reports for SMEs. These activities can synergize between the Regional Government and the Financial Authority. Other activities that might be carried out are activities carried out by financial authority holders such as banks which not only make light loan programs for

batik entrepreneurs, but these activities are continuous with assistance in terms of how to use and prepare financial reports used.

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