The Influence of Financial Literacy, Financial Behavior, and Locus of Control on the Financial Performance of Micro, Small, and Medium Enterprises (MSMEs)

Ni Luh Eka Ayu Permoni[1], I Putu Gede Parma[2], Ni Kadek Ayu Trisnadewi[3], Ketut Peni Tarayani[4],

[*1,3,4] Program Studi Manajemen, Sekolah Tinggi Ilmu Ekonomi Satya Dharma, Indonesia
[2]Undiksha Singaraja, Indonesia

A R T I C L E   I N F O

ABSTRACT

This study aims to examine the influence of financial literacy, financial behavior, and locus of control on the financial performance of MSMEs in Kubutambahan Village, Buleleng Regency. The main challenges faced by MSMEs in the area include poor financial management and a lack of confidence in making business decisions, particularly in the aftermath of the COVID-19 pandemic. A quantitative approach was employed, using a survey method with questionnaires distributed to MSME actors. The data were analyzed using multiple linear regression. The results indicate that all three independent variables—financial literacy, financial behavior, and locus of control—have a positive and significant effect on financial performance. Among these variables, financial behavior is the most dominant factor influencing financial performance. These findings highlight the importance of strengthening both financial capacity and psychological resilience of MSME actors as a strategy to improve business competitiveness and sustainability.

Corresponding Author:

Ni Luh Eka Ayu Permoni
Sekolah Tinggi Ilmu Ekonomi Satya Dharma
Jl. Yudistira No.11, Kendran, Kec. Buleleng, Kabupaten Buleleng, Bali 81112
Email: ekapermoni87@gmail.com

1.   INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a vital role in Indonesia's economic structure, not only in terms of employment creation and poverty reduction but also as substantial contributors to national Gross Domestic Product (GDP) and regional income. According to the Ministry of Cooperatives and SMEs of Indonesia, MSMEs account for over 60% of GDP and absorb more than 90% of the national workforce. Amid global economic uncertainties and the COVID-19 pandemic, MSMEs have demonstrated remarkable resilience, functioning as stabilizing agents in the national economy (Tambunan, 2019; OECD, 2022).

Despite their pivotal role, MSMEs continue to face numerous internal challenges—particularly in the area of financial management. Several studies have revealed that weak financial literacy, poor financial behavior, and a lack of psychological preparedness among MSME actors contribute significantly to poor financial performance and business sustainability (Erhomosele & Obi, 2022; Hamid, 2023). In many cases, MSMEs lack structured bookkeeping practices and often fail to separate personal and business finances, which impedes accurate financial analysis and decision-making (Gunawan, Jufrizen, & Pulungan, 2023)

Financial literacy is widely recognized as a fundamental factor influencing financial decision-making. It encompasses a combination of financial knowledge, skills, and attitudes required to make informed and effective financial decisions (INFE, 2020). Empirical studies have consistently demonstrated that higher levels of financial literacy are positively associated with better business financial outcomes (Darmawan et al., 2019, Suardana & Musmini, 2020). In the context of MSMEs, financial literacy enables entrepreneurs to develop realistic financial plans, allocate resources efficiently, and access formal financial services (Susan, 2020)

Complementing financial literacy, financial behavior reflects the actual practices and decisions made in managing financial resources, including budgeting, saving, investing, and spending. These behaviors are often shaped by a combination of rational thinking and emotional responses (Shefrin, 2021). Studies by Perry & Morris, (2005) as well as Farrell et al., (2016) emphasize that disciplined financial behavior significantly enhances both individual financial well-being and overall business performance.

In addition to knowledge and behavior, psychological traits—particularly locus of control—also influence financial outcomes. Introduced by Rotter, (1966), locus of control refers to the extent to which individuals believe they can control events affecting their lives. Entrepreneurs with an internal locus of control are generally more proactive, resilient, and accountable in managing their businesses (Caliendo at al., 2015; Judge at al., 2002). Recent studies also show that a strong internal locus of control is associated with improved financial planning and adaptability, especially under uncertain conditions (Hidayati & Nugroho, 2023; Rohmah at al., 2021).

The issue of poor financial management is also evident among MSMEs in Kubutambahan Village, Buleleng Regency. Preliminary observations reveal that most business actors do not yet have an adequate bookkeeping system and often mix personal and business finances. Moreover, the lingering impact of the pandemic is still being felt, as indicated by a significant decline in income and low self-confidence in facing business challenges. This situation underscores the importance of strengthening financial literacy, improving financial behavior, and fostering a resilient entrepreneurial mindset.

Based on this background, this study aims to empirically examine the influence of financial literacy, financial behavior, and locus of control on the financial performance of MSMEs in Kubutambahan Village. The findings of this research are expected to contribute to the development of empowerment strategies for MSMEs through the enhancement of managerial and psychological capacities of business actors.

2.   RESEARCH METHOD
This study employs a quantitative approach to examine the influence of financial literacy, financial behavior, and locus of control on the financial performance of MSMEs in Kubutambahan Village. The study population consists of 62 MSMEs, with random sampling applied due to the homogenous characteristics of the population. Data were collected through a Likert-scale questionnaire and analyzed using validity and reliability tests, classical assumption tests, multiple linear regression, and hypothesis testing to statistically assess the relationships among variables.

3.   RESULTS AND DISCUSSIONS
The critical r-value at a 5% significance level ($\alpha = 0.05$) with degrees of freedom (df) of $n - 2 = 62 - 2 = 60$ is 0.250. This value serves as the benchmark for assessing the validity of questionnaire items in this study. An item is considered valid if the r-calculated ($r_h$itung) > r-table (0.250), indicating that the item accurately measures the intended variable.

Validity testing was conducted for all items within the variables of financial literacy, financial behavior, locus of control, and financial performance. The results are presented in tabular form to facilitate interpretation.

Table 1. Summary of Validity Test Results

Variable/Item Statement	R-hitung	R-tabel	Keterangan
X1: *financial literacy*			
X1.1	0,686	0,25	Valid
X1.2	0.779	0,25	Valid
X1.3	0.803	0,25	Valid
X2.4	0.516	0,25	Valid
X_2: *financial behavior*			
X2.1	0,406	0,25	Valid
X2.2	0,674	0,25	Valid
X2.3	0,736	0,25	Valid
X2.4	0,695	0,25	Valid
X2.5	0,563	0,25	Valid
X2.6	0,536	0,25	Valid
X_3: *Locus Of Control*			
X3.1	0,762	0,25	Valid
X3.2	0,641	0,25	Valid
X3.3	0,756	0,25	Valid
X3.4	0,653	0,25	Valid
Y: *financial performance*			
Y1	0,854	0,25	Valid
Y2	0,881	0,25	Valid
Y3	0,778	0,25	Valid

The reliability test aims to determine the extent to which a measurement instrument can produce consistent and stable results when repeated under the same conditions. In this study, reliability was assessed using the Cronbach's Alpha coefficient.

According to Nunnally (1994), as supported by Ghozali (2018), an instrument is considered reliable if the Cronbach's Alpha value exceeds 0.60. In exploratory research contexts, a value above 0.60 is generally deemed acceptable. The following are the reliability test results for each variable:

Table 2. Summary of Reliability Test Results

Variable	Cronbach's Alpha	Description
Financial Literacy	0,658	Reliabel
Financial Behavior	0,649	Reliabel
Locus of Control	0,663	Reliabel
Financial Performance	0,788	Reliabel

The Cronbach's Alpha values for all variables are greater than 0.60, as shown in Table 2. Therefore, it can be concluded that the measurement instruments used for each variable are reliable.

Table 3. Multiple Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	2.211	2.354		.939	.352
	X1	.168	.067	.135	2.521	.014
	X2	.798	.052	.851	15.362	.000
	X3	.052	.018	.162	2.829	.006

Based on the results of multiple linear regression analysis, it was found that all three independent variables—financial literacy, financial behavior, and locus of control—have a positive influence on the dependent variable, namely the financial performance of MSMEs. The positive regression coefficients for each of these variables indicate that improvements in these factors significantly contribute to enhanced financial performance.

The financial literacy variable (X1) has a regression coefficient of 0.168, indicating that a one-unit increase in financial literacy leads to an increase of 0.168 units in financial performance, assuming the other variables remain constant. This finding highlights the importance of MSME actors' understanding and knowledge of financial concepts and practices in optimizing their business performance.

Furthermore, the financial behavior variable (X2) exhibits the most dominant effect in this model, with a regression coefficient of 0.798. This value confirms that sound financial behaviors, such as saving habits, budgeting, managing expenditures, and wise investing, contribute substantially to improving financial performance. This finding reinforces the argument that behavioral dimensions are a critical component in the effective financial management of MSMEs.

Meanwhile, the locus of control variable (X3) shows a regression coefficient of 0.052. Although its contribution is smaller compared to the other two variables, its effect remains positive and statistically significant on financial performance. This indicates that individuals with a high internal locus of control—that is, the belief that financial success results from personal effort and decisions—tend to exhibit better financial performance

Overall, the results of this analysis indicate that the three independent variables play a significant role in shaping the financial performance of MSMEs, with financial behavior emerging as the dominant factor in the regression model. These findings carry important implications for the development of MSME empowerment strategies, particularly in strengthening the financial behavior and literacy capacity of business actors, as well as fostering positive character traits that support responsibility and independence in financial management.

Table 4. Results of the Coefficient of Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
Financial Performance	.860ª	.739	.726	2.933	2.081

The coefficient of determination is presented in Table 4, where the Adjusted R Square value is 0.726 or 72.6%. This indicates that 72.6% of the variability in financial performance can be explained by the three independent variables in the model, namely financial behavior, financial literacy, and locus of control. Meanwhile, the remaining 27.4% is influenced by other factors outside the variables included in this study's model.

Table 5. F-Test Analysis

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	101.208	3	33.736	105.573	.000ᵃ
	Residual	18.534	58	.320		
	Total	119.742	61			

Based on the results presented in Table 5, the calculated F-value of 105.573 is greater than the critical F-table value of 2.76 at the 5% significance level. This indicates that the null hypothesis (H_0) is rejected and the alternative hypothesis (H_1) is accepted, implying that the regression model is statistically significant as a whole. In other words, financial literacy, financial behavior, and locus of control jointly have a significant influence on the financial performance of MSMEs in the Kubutambahan District. Therefore, the research hypothesis stating that "The higher the levels of financial literacy, financial behavior, and locus of control, the better the financial performance of MSMEs in Kubutambahan" is supported.

Table 6. T-Test Analysis

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	2.211	2.354		.939	.352
	X1	.168	.067	.135	2.521	.014
	X2	.798	.052	.851	15.362	.000
	X3	.052	.018	.162	2.829	.006

Based on the results of the multiple linear regression analysis, it was found that all independent variables in this study—namely financial literacy, financial behavior, and locus of control—have a positive and significant influence on the financial performance of MSMEs in Kubutambahan Village. The financial literacy variable yielded a t-value of 2.521, which is greater than the t-table value of 1.67065 at the 5% significance level, with a significance value of 0.014 (< 0.05). This indicates that financial literacy positively contributes to improvements in financial performance.

The financial behavior variable produced a t-value of 15.362, which far exceeds the t-table value at the same significance level and is supported by a p-value of 0.000. This finding confirms that financial behavior is the most dominant factor influencing the financial performance of MSMEs.

Furthermore, the locus of control variable also demonstrated a significant effect, with a t-value of 2.829 and a significance value of 0.006, which is below the 0.05 threshold. This suggests that MSME actors' belief in their internal control over business success contributes to enhanced financial performance.

Overall, these results strengthen the argument that the three variables play a critical role in improving MSMEs' financial management capacity, thus providing a foundation for the development of sustainable business strategies.

DISCUSSIONS

The findings of this study reveal that financial literacy has a positive and significant influence on the financial performance of MSMEs in Kubutambahan Village. This is evidenced by a regression coefficient of 0.168 and a t-value of 2.521, which exceeds the t-table value of 1.67065 at the 5% significance level. Furthermore, the significance value of 0.014 (< 0.05) confirms the statistical significance of this effect.

Practically, this result indicates that a high level of financial literacy enables MSME actors to comprehensively understand financial concepts, including budgeting, debt management, and sound investment decision-making. Financial literacy also plays a vital role in enhancing the entrepreneurs' capacity to interpret financial information, assess risks, and capitalize on business opportunities.

These findings are consistent with previous studies by (Darmawa at al., 2021), Wahyuni at al., (2021) dan (Hilmawati & Kusumaningtias, 2021),which identify financial literacy as a key determinant in improving the financial performance of MSMEs. In the context of microenterprise empowerment, improving financial literacy can directly contribute to business competitiveness and sustainability. Therefore, financial literacy should be integrated into MSME development strategies implemented by the government and supporting institutions.

The financial behavior variable in this study was found to have the most dominant influence on the financial performance of MSMEs, with a regression coefficient of 0.798, a t-value of 15.362, and a significance level of 0.000. These findings indicate that MSME actors who exhibit positive financial behaviors—such as regular saving, budgeting, prudent spending, and careful investing— tend to demonstrate better financial performance. Financial behavior reflects individuals' habits and attitudes in managing financial resources, which directly affect business efficiency and sustainability.

This result is consistent with studies by (Upadana & Herawati, 2020) and (Nopiyani & Indiani, 2023), which state that financial behavior significantly contributes to the development of healthy and productive business practices. Therefore, MSME development efforts should not only focus on enhancing knowledge but also on fostering sound financial habits through continuous training and behavioral interventions.

Furthermore, the results of this study also reveal that locus of control has a positive and significant effect on the financial performance of MSMEs, as indicated by a regression coefficient of 0.052, a t-value of 2.829, and a significance level of 0.006. A high level of locus of control— particularly internal locus of control—reflects the belief among entrepreneurs that their success is determined by their own actions and decisions rather than by external factors alone. This belief encourages MSME actors to be more responsible, proactive, and resilient in responding to business challenges (Agustina at al 2022; Munir, 2022).

These findings are supported by the studies of Darmawan et al., (2021) and Putri & Bandi, (2023) which demonstrate that locus of control contributes to improved financial performance by fostering a positive mental attitude. In the context of MSMEs, such an attitude is crucial for building business resilience, particularly in navigating market dynamics and resource constraints.

Overall, the findings of this study emphasize that the financial success of MSMEs is not solely dependent on external factors such as capital support or government policies, but is also significantly influenced by internal factors, including financial knowledge, money management habits, and personal beliefs in controlling business outcomes. These results carry important implications for policymakers and MSME support institutions, highlighting the need to design integrated programs that combine cognitive capacity building with the strengthening of entrepreneurial character.

4.   CONCLUSION

Based on the findings and hypothesis testing, this study concludes that financial literacy, financial behavior, and locus of control significantly influence the financial performance of Micro, Small, and Medium Enterprises (MSMEs) in Kubutambahan Village, Buleleng Regency. 1) Financial literacy has a positive and significant effect on the financial performance of MSMEs. Entrepreneurs with a higher level of financial knowledge and understanding are more capable of managing resources, planning budgets, and making informed financial decisions, which directly improves their business outcomes. 2) Financial behavior also exhibits a positive and significant impact on MSMEs' financial performance. Sound financial practices—such as saving, budgeting, and controlling expenditures— support better financial stability and enhance business sustainability. 3) Locus of control is positively and significantly associated with MSMEs' financial performance. Business owners who possess an internal locus of control tend to be more proactive, responsible, and resilient in navigating financial challenges and making strategic decisions. These results emphasize the importance of strengthening both cognitive and psychological capacities among MSME actors. Consequently, efforts to improve financial performance should incorporate comprehensive financial education,

behavior-based financial interventions, and entrepreneurial mindset development programs. Based on the findings of this study, it is recommended that MSME actors in Kubutambahan Village continuously enhance their understanding and skills in financial management (financial literacy), cultivate prudent financial behavior, and maintain a positive locus of control to support the sustainability and improvement of their financial performance. Furthermore, future research is encouraged to expand the current model by incorporating additional relevant variables, thereby providing a more comprehensive perspective on the determinants of MSME financial performance. It is also advisable for subsequent studies to be conducted in broader geographical contexts or employ alternative methodological approaches to enrich the existing literature in this field.

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