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FINANCIAL LITERACY AS A DETERMINANT FACTOR IN BUSINESS GROWTH FOR CREATIVE MSMEs IN YOGYAKARTA

Abstract: *Research on the influence of financial literacy on MSMEs business growth has been carried out. However, creative MSMEs financial literacy related to understanding accounting and budgeting is rarely valued. This study focuses on assessing the effect of financial literacy in particular an understanding of debt management, budgeting, bank services, and accounting for the growth of Creative MSMEs. Creative MSMEs in Yogyakarta are chosen because Yogyakarta is a region that is rich in traditional culture and diverse character of its inhabitants, thus encouraging the development of the potential of Creative MSMEs. Research uses primary data sources on Creative MSMEs in Yogyakarta. Data collection is done through an independent questionnaire. The technique of analyzing multiple linear regression data is used to test the effect of financial literacy on business growth. The results of the study found that financial literacy influenced business growth. The research implications are Creative MSMEs who have a good understanding of financial literacy can make the right decisions so that their business growth increases. Good financial literacy encourages Creative MSMEs to be able to optimally absorb various programs and incentives from the government and accountable them accountably. This research also provides insight to stakeholders who have a role to increase financial literacy in Indonesia.*

Keywords: *financial literacy, business growth, creative micro small medium enterprise*

1. Introduction

Creative MSMEs often experience delays in their development due to a variety of conventional problems that have not been resolved completely, namely HR capacity issues, financing, marketing, and others related to business management, making it difficult to compete with large companies (Fitriati, 2014). Strategic efforts are needed to improve the performance and

sustainability of MSMEs, including increasing financial knowledge so that management and accountability responsible as in large companies. Literature proves that a company's ability to recognize and access financial resources has an impact on the company's growth rate (Cole & Fernando, 2008; Bruhn, 2013). The problems that are currently faced by many MSMEs are business growth, lack understanding of good financial management, and low quality

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management. In addition, MSMEs also have weaknesses, which are difficult to grow and develop because their business is always stagnant, have limited market, and difficult to grow. This is supported by a statement (Cole & Fernando, 2008; Bruhn, 2013) which states that there are problems faced by MSMEs, especially delays in development caused by various conventional problems that are not completely solved, such as problems in HR capacity, ownership, financing, marketing and other business management problems, so that MSMEs difficult to compete with large companies.

Several studies have produced positive findings about the importance of MSMEs in financial literacy. MSMEs which have a good understanding of finance and taxation generate business growth (Clark, 2014; Bayrakdarođlua, 2014) and competitive advantage (Bayrakdarođlua, 2014; Demirbag, et. all., 2013; Nunoo & Andoh, 2012). It is recommended to tell the importance of financial literacy to MSME managers by conducted financial training. Managers with higher financial literacy levels show greater participation in financial markets (Nunoo & Andoh, 2012; Beck, et.all., 2005; Kotzè & Smit 2008).

The contradictory studies found that MSMEs experience various difficulties when increasing their business growth, especially those that include tax (Beck, et.all., 2005; Agyei, 2018). Explaining financial literacy is the main untapped organizational resource that can improve MSME performance through sustainable competitive advantage. Low financial literacy can reduce the ability to accumulate and manage assets, and ensure a promising financial future. This study is trying to fill the gap by integrating business growth relationships patterns to enhance the sustainable competitive advantage of Creative MSMEs in DIY through financial literacy. The aims of this study is analyze the condition of Creative DIY MSMEs relating to the use of financial literacy as a strategy to achieve sustainable competitive advantage. This study is expected to 1) increase

financial literacy in Creative MSME managers to make appropriate decisions for business success and sustainability, and the absorption of programs and incentives from the Government, 2) provide insight to stakeholders to improve financial literacy in Indonesia.

2. Research Method

This study uses primary data through a questionnaire to strengthen the results. Population of this study is Creative MSME players in DIY. This study focuses on assessing financial literacy especially understanding of debt management, budgeting, bank services, and accounting records. Creative MSMEs in Yogyakarta are chosen because Yogyakarta is a region that is rich in traditional culture and diverse character of its population, thus encouraging the development of the potential Creative MSMEs. Sample determination uses proportional simple random sampling technique by take 20% sample of the total Creative MSMEs in each district/city. DIY has four districts, namely Sleman Regency, Kulonprogo Regency, Gunungkidul Regency, Bantul Regency and one city namely Yogyakarta. However, a decent sample of respondents was 136. The questionnaire uses a model developed by Likert with an interval of 5 scale: 1. strongly disagree, 2. disagree, 3. neutral, 4. agree, 5. strongly agree.

3. Result and Discussion

Validity testing is conducted based on item analysis by correlates the score of each item with a variable score (the sum of the total scores of question items). The correlation technique uses Pearson Correlation. Validity testing conducts with real level of 0.05 or 5%. Item questions are declared valid if they have $r_{\text{value}} > r_{\text{table}}$ or $\text{sig} \leq 0.05$. The validity test results can be seen in Table 1

Table 1. Validity and Reliability Test Results

Variable	Indicator	<i>Pearson Correlation</i>	Significance	Decision	Cronbach's Alpha
Bank Service	Item 1	0.577	0.000	Valid	0.744
	Item 2	0.574	0.000	Valid	
	Item 3	0.599	0.000	Valid	
	Item 4	0.676	0.000	Valid	
	Item 5	0.690	0.000	Valid	
	Item 6	0.641	0.000	Valid	
	Item 7	0.672	0.000	Valid	
Debt management	Item 1	0.856	0.000	Valid	0.932
	Item 2	0.846	0.000	Valid	
	Item 3	0.886	0.000	Valid	
	Item 4	0.890	0.000	Valid	
	Item 5	0.903	0.000	Valid	
	Item 6	0.815	0.000	Valid	
Budgeting	Item 1	0.921	0.000	Valid	0.918
	Item 2	0.898	0.000	Valid	
	Item 3	0.862	0.000	Valid	
	Item 4	0.912	0.000	Valid	
Accounting Records	Item 1	0.769	0.000	Valid	0.909
	Item 2	0.720	0.000	Valid	
	Item 3	0.826	0.000	Valid	
	Item 4	0.788	0.000	Valid	
	Item 5	0.796	0.000	Valid	
	Item 6	0.782	0.000	Valid	
	Item 7	0.787	0.000	Valid	
	Item 8	0.840	0.000	Valid	
Business Growth	Item 1	0.740	0.000	Valid	0.936
	Item 2	0.768	0.000	Valid	
	Item 3	0.839	0.000	Valid	
	Item 4	0.818	0.000	Valid	
	Item 5	0.811	0.000	Valid	
	Item 6	0.883	0.000	Valid	
	Item 7	0.852	0.000	Valid	
	Item 8	0.543	0.000	Valid	
	Item 9	0.861	0.000	Valid	
	Item 10	0.837	0.000	Valid	

Based on Table 1, the calculated value of all questionnaire items including financial literacy variables namely bank services, debt management, budgeting, accounting records and business growth shows probability values (sig) <0.05. It indicates that all variables are valid. The Cronbach Alpha value obtained from all results including variables show value greater than 0.6. which means reliable.

Table 2. Descriptive Analysis

No	Variable	Mean	Category
1	Bank Service	4.15	Good
2	Debt management	4.17	Good
3	Budgeting	4.33	Very Good
4	Accounting Records	4.41	Very Good
5	Business Growth	4.16	Good

Descriptive statistics on Table 2 shows that the financial literacy variable consisting of bank services, debt management, and business growth has a score in the range of

4.15 to 4.41. It indicates a good understanding of financial literacy, especially an understanding of bank services and debt management and the growth level of the creative MSME business in Yogyakarta. Whereas understanding of financial literacy in budgeting and accounting records are very good for Creative MSMEs in Yogyakarta.

Researcher uses multiple linear regression models to test the hypothesis. Multiple linear regression analysis is used to obtain a comprehensive picture of financial literacy effects which consist of bank services, debt management, budgeting and accounting records for business growth. The results of multiple linear regression calculations are presented in Table 3.

Muraga (2015) used debt management, budgeting, bank services, and bookkeeping or recording as financial literacy variable and found that all financial literacy variables have a positive relationship with business performance. The debt management variable has the highest proportion of relations while the lowest is bookkeeping. Aribawa (2016) found that financial literacy affected the performance and sustainability of creative MSME businesses. Lusimbo (2016) found that low financial literacy managers recorded lower and even zero business growth. The finding (Agyei, 2018) explains that it is recommended to increase MSMEs managers' financial literacy levels in developing countries, especially Turkey, by financial training. Managers with a higher level of financial literacy show greater participation in financial markets. Nunoo and Andoh (2012) found that better financial literacy provide benefits for SMEs such as increasing demand for financial services, more savings, better risk management, increasing intermediation and accelerating financial development. Drexler et al. (2010) revealed that simple training and practical rules produce improvements that are economically meaningful to SMEs. Training that is in accordance with basic financial needs is

more appropriate and efficient for economic development and business growth of MSMEs. Companies including SMEs can rely on dynamic capabilities such as financial literacy, which can turn resources into various objectives such as the creation, expansion, and modification of resources (Adomako, et.al., 2016). The study explains the relationship between financial literacy and the growth of MSME businesses. Maximum mastery of financial literacy tends to increase the growth of MSME business. Sakur (2011) found that MSMEs play a very large role in national economic development. Improving the performance of MSMEs will increase the organizations growth (companies growth). The large size of MSMEs does not guarantee good performance because of the inability of MSMEs to manage resources effectively and efficiently. The results of the study (Sumarna, 2016) stated that the company size has a significant negative effect on company growth, while internal finance, external finance and corporate opportunities have a significant positive effect on the company growth. Lappalainen and Niskanen (2009) found the growth of SME businesses in several developing countries including Finland increasing along with company size. Coluzzi et al. (2009) explained that smaller companies tend to be easier and faster to grow than larger and older companies. The results of the study explain the relationship between business scale and business growth. Based on the results of the analysis and discussion, it can be concluded that financial literacy consisting of bank services, debt management, budgeting and accounting records has a significant influence on the growth of Creative MSME businesses in Yogyakarta. The finding (Bayrakdaroglu & Şanb, 2014) explains that MSMEs in developing countries recommend to increase managers' financial literacy levels by financial training. Managers with a higher level of financial literacy show greater participation in financial markets.

Table 3. Multiple linear regression

Variable	Coefficient of Regression	t	Sig	Decision
(Constant)	1.035			
Bank Service	0.537	3.049	0.004	Support Hypothesis
Debt management	0.362	2.953	0.005	Support Hypothesis
Budgeting	0.353	2.513	0.015	Support Hypothesis
Accounting Records	0.529	4.387	0.000	Support Hypothesis
F	20.728			
Sig	0.000			
Adj R Square	0.369			

*Significance at 5% level

4. Conclusion

Nunoo and Andoh (2012) found that better financial literacy can provide benefits for SMEs such as increasing demand for financial services, more savings, better risk management, increasing intermediation and accelerating financial development. Thus, it becomes a big challenge for creative MSMEs to have more knowledge about financial literacy. Owners and/or managers

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of MSMEs are expected to be able to make appropriate management and financial decisions for the success and sustainability of the business. This study provides insight for stakeholders who have a role to increase the level of financial literacy in Indonesia. In this case the Government (BI, OJK and related Ministries) should be an aggregator or facilitator to share knowledge on financial literacy among MSMEs (sharing successful entrepreneurs succeed with good financial literacy).

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