

## Original Research Article

# **CasinoRoyale: A Comparative Analysis of Financial Literacy and Locus of Control on SMEs' Financial Behavior**

### **ABSTRACT**

In improving the capability and stability of SMEs in Indonesia, knowledge of SME governance is very important, including financial literacy knowledge. Several previous studies have found that due to a lack of financial literacy knowledge, a number of SMEs in Indonesia cannot survive the onslaught of the business world which is full of competition and the dynamics of changing times from time to time. A low level of financial literacy ultimately becomes a deadly scourge for SMEs because it can have a negative impact on financial behaviour at both the organizational and individual levels. In addition, locus of control (LOC) skills or self-control are also one of important factors in managing the finances of an organization, especially for someone who wants to create and run SMEs. However, effective and efficient financial management behaviour based on financial literacy knowledge and LOC skills that are proportional to the context of SMEs tends to be something that is often overlooked by SMEs business people. Thus, a lot of literature indicates that almost all SMEs in Indonesia do not have adequate business financial performance reports as a condition for obtaining business loans from financial institutions. Therefore, with the support of the above issues, this study aims to conduct a comparative study from two major cities in Indonesia to explore and identify how much financial literacy and LOC influence financial management behaviour in SMEs actors. The output of this research is also expected to contribute positively to theoretical and managerial aspects. In particular, contributions in providing detailed explanations and guidelines related to financial literacy, LOC, and financial management behaviour. This research is also expected to provide recommendations for future research.

**Comment [KI1]:** An abstract should contain the topic, problem of the study, design, population, sample, instrument, findings and recommendations

*Keywords: financial literacy, locus of control, financial, marketing, SMEs*

### **INTRODUCTION**

The popularity of small and medium-sized enterprises (SMEs) in Indonesia has been increasing, especially its strategic position in the national economy since 1998. This is due to the existence of SMEs that are quite dominant in the national economy, such as (a) the large number of industries contained in each economic sector; (b) great potential in employment; and (c) the contribution of SMEs in the formation of significant gross domestic product (GDP) [1-3]. The Indonesian Ministry of Cooperatives and Small and Medium Enterprises reported that in terms of the number of units, SMEs had a share of around 99.99% (62.9 million units) of the total business actors in Indonesia in 2017 and had at least helped absorb around 97% of the national workforce [4, 5].

### **MATERIALS AND METHODS**

#### **Financial Management and Literacy**

Financial management refers to the strategic planning, organizing, directing, and controlling of a company's financial resources. It involves making informed decisions about how to allocate funds to maximize profitability and ensure the

long-term financial stability of the organization [6]. Financial management encompasses various activities such as budgeting, forecasting, investment analysis, risk assessment, and financial reporting. It plays a crucial role in monitoring and managing the financial health of a company and making sure that resources are utilized effectively and efficiently to achieve the organization's goals and objectives [6, 7].

Financial literacy refers to the ability to understand and apply various financial skills and concepts to make informed decisions regarding personal and household finances [7]. It encompasses the knowledge and understanding of financial concepts such as budgeting, saving, investing, borrowing, and managing debt. Financial literacy also involves the ability to analyze and assess financial risks, evaluate financial products and services, and make informed decisions to achieve long-term financial goals [8]. Being financially literate is crucial in today's complex financial landscape to make sound financial decisions and achieve financial security [6-8].

Moreover, based on the results of the 2019 National Financial Literacy and Financial Inclusion Survey (SNLIK) conducted by the Financial Services Authority (OJK) stated that the financial literacy index of people in Indonesia increased to 38.03% from the previous 29.66% in 2016 [5]. However, specifically in the SMEs sector, in 2016, the level of financial literacy was only 15.68%, so the results of this survey indicate that there is still low knowledge about financial literacy among SME actors and/or owners. With sufficient mastery of financial literacy, SME actors and/or owners are expected to be able to better manage business finances so as to have a positive impact on increasing income, especially income management for more productive long-term investment, so that this will also have a positive effect on the wheels of the national economy [6, 9].

#### **Locus of Control**

One of the personality variables of the individual is belief i.e. locus of control (LOC) which consists of two types, namely: (a) internal LOC; and (b) external LOC. According to Kristanto [10], a person is said to have an internal LOC, if, he has confidence that the fate in his life is under his control; he considers that the results he achieves come from his own activity; He has the perception that the environment can be controlled by him so that he is able to make changes according to his wishes. Conversely, a person is said to have an external LOC if: he has the belief that it is the environment that has control over his fate or events; He assumes that the success achieved was controlled by the circumstances around him; He tends to be resigned to what happens to him without trying to make changes, so he tends to like the behaviour of adjustment to the environment in order to stay afloat in the existing situation [9, 10].

Subsequently, professionalism in financial management has always been considered the most important concept in the discipline of financial science [1, 2]. This is because financial management behaviour is a determinant in terms of acquisition, allocation, and utilization of financial resources [11-13]. Based on this phenomenon, this study then indicates that there is a serious problem in the context of SMEs, namely the lack of knowledge level of SME actors and/or owners on financial literacy and LOC. This study also recommends that increasing financial literacy knowledge and effective LOC control can be one of the most important factors in improving the financial performance of SMEs in Indonesia so that SME actors and/or owners are expected to be able to survive in a business world full of competition.

**Comment [KI2]:** Move this to recommendations

Based on the discussion earlier, especially the related issues as well as the gap in the literature that have been described in the prior section, this study then wants to answer how financial literacy and LOC affect the financial management behaviour of SME actors and/or owners who actively run their business in two major cities in Indonesia, namely Surabaya and Makassar.

Furthermore, this study, through an in-depth analysis of literature, finds that there are many studies that discuss the effect of financial literacy and LOC in one particular city, however, few literatures are found that explore the effect of financial literacy and LOC on financial management behaviour by comparing SMEs from two different cities. The most important thing is that there is a research gap found which later becomes the novelty of this research, which is a special finding in the scientific literature related to the scarcity of research conducted in developing countries, especially in Indonesia. Therefore, with the support of the background of the above problems, this study then formulated the research objectives, namely a comparative study of the effect of financial literacy and LOC on the financial management behaviour of SMEs in Surabaya and Makassar.

Moreover, following the above explanation, this research is then expected to present research outputs that can make a positive contribution both theoretically and managerially, especially providing theoretical explanations related to the influence of financial literacy and LOC on financial management behaviour. So from this theoretical explanation, this study is able to provide newer treasures to the existing literature both by supporting and/or rejecting the results of previous research and providing additional scientific descriptions of the results of previous research. From the managerial side, the output of this research is expected to be a useful guideline for SMEs in managing their business units, especially better

financial management in the business world and industries that are full of competition and rapid change. In addition, the results of this study are expected to provide recommendations for future research.

### Research Framework and Hypothesis

Based on the previous discussion, this study builds the framework of concepts described in Figure 1. The illustration in Figure 1 shows that the first independent variable or X1, is financial literacy. Then, for the second independent variable or X2, namely the locus of control, and for the dependent variable, namely, the financial management behaviour of SMEs. Then, from Figure 1, this study builds a conceptual framework, focusing on the analysis of the influence of the two independent variables, namely financial literacy and locus of control, on the dependent variable, namely SME financial management behaviour. From this analysis, this study is expected to provide findings on whether independent variables have a role, including (1) positive; and (2) significant to the financial management behavior of SMEs.

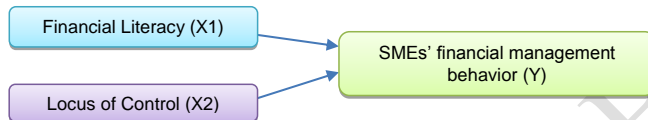


Fig. 1. Research Framework

Table 1. Research Hypothesis

No	Research Hypothesis
H1	Financial literacy has a positive influence on SMEs' financial management behaviour in Makassar
H1	Financial literacy has a significant influence on SME's financial management behaviour in Makassar
H3	Financial literacy has a positive influence on SME's financial management behaviour in Surabaya
H4	Financial literacy has a significant influence on SME's financial management behaviour in Surabaya
H5	Locus of control has a positive influence on SMEs' financial management behaviour in Makassar
H6	The locus of control has a significant influence on financial management behaviour in Makassar
H7	Locus of control has a positive influence on SMEs' financial management behaviour in Surabaya
H8	The locus of control has a significant influence on financial management behaviour in Surabaya

### Research Design

This research design is a quantitative-based comparative study, where the comparative study is a research design that compares [14] and in this study, the object of research compared is the influence of literacy and locus of control on the financial management behaviour of SMEs from two cities in Indonesia, namely Makassar and Surabaya.

**Comment [K13]:** It would be better to say this study is a survey which adopted a comparative design.

Subsequently, in quantitative methods, this study uses survey methods where the goal is to obtain data from certain places that are natural (not artificial) through survey tools, for example, questionnaires and structured interviews [14, 18-21]. This study then compares how financial literacy and locus of control affect the financial management of SMEs so that a comparison of the capabilities of the two big cities is obtained and can play an important role in management science both contributions in theoretical contexts, especially in innovation and business management and managerial contexts, namely guidelines for business actors and policy and/or regulatory determinants, and also as an effort to: (a) increase joint-research both at national and international levels; (b) institutional strengthening through increased research cooperation; (c) internationalization of research quality; and (d) optimization of the benefits of research results.

**Comment [K14]:** This should not be here. Take it to your background. That the rationale for the study.

### Research Location and Period

The study was conducted in August-November 2023. The location selection is in Surabaya, East Java and Makassar, South Sulawesi. For sample selection, this study sorts out SMEs that meet the requirements specified in this study to then be used as a unit of research analysis.

### Research Population, Sample, and Sampling Technique

The population of this study came from SMEs that met the requirements to be used as a unit of analysis of the research population unit. For sampling techniques, this study will use non-random sampling techniques or non-probability sampling, which is a technique that is not based on the laws of probability so that it does not provide equal opportunities for every element or member of the population to be selected into a sample [17-19].

The number of samples in this study was 130 SMEs that were active and officially registered with the Indonesian Ministry of Cooperatives.

### Data Source and Data Analysis Technique

The data sources used in the study are the first, namely primary data which includes: (a) data in the form of interview results obtained from tourism SMEs in Surabaya and Makassar, plus interviews with key informants who carry out SME activities; and (b) field observations. Then, the second or secondary source of data is data from reports or documents related to SMEs in Surabaya and Makassar.

This study used data collection techniques through (a) observation; (b) structured and in-depth interviews; and (c) documentation including questionnaires. Then, this research data analysis technique uses quantitative test tools, namely: (1) the validity and reliability test; (2) the R-Square test; and (3) the hypothesis test through path coefficients measurement.

## RESULTS AND DISCUSSION

### The Results of Validity, Reliability, and R-Square Test

Table 2. Validity, Reliability, and R-Square Test Results

MAKASSAR						
	C.Alpha	rho_A	Realiab.	r-table	AVE	R-Square
FB	0.817	0.819	0.891	0.159	0.732	0.735
FL	0.804	0.808	0.873	0.159	0.632	
LOC	0.830	0.833	0.887	0.159	0.663	
SURABAYA						
	C.Alpha	rho_A	Realiab.	r-table	AVE	R-Square
FB	0.861	0.866	0.916	0.159	0.691	0.668
FL	0.817	0.818	0.879	0.159	0.691	
LOC	0.850	0.856	0.899	0.159	0.691	

Based on Table 2, this study discloses that all variables in this research are valid for both Makassar and Surabaya research location. The reason is because r-count scores of all variables are higher than r-table scores. Accordingly, this study implies that the variables and indicators of financial literacy, locus of control, as well as, financial management behavior of SMEs are valid, and can be used for the further statistical analysis. For the reliability test results, as suggested by Yushar et al. [20], if Cronbach Alpha scores of variables are higher than 0.60, then the indicators as well as variables are reliable. This study variables' Cronbach Alpha scores are higher than 0.60, as such, this study implies that all variables in this study are reliable and can be used for further statistical measurements.

Moreover, R-squared is the proportion of the variance in the dependent variable that is explained by the independent variables in a regression model. The coefficient of determination shows how correlated one dependent and one independent variable are [21-23]. Also called  $r^2$  (r-squared), the value should be between 0.0 and 1.0. The closer to 0.0, the less correlated the dependent value is. The closer to 1.0, the more correlated the value is.

**Comment [KI5]:** What is the population, sample the non probability techniques adopted?

**Comment [KI6]:** Reliability and validity should not come under results and discussion. They are psychometric properties of measuring instruments. They should be discussed in the methodology. The questionnaire was not described in detail and those who validated it.

**Comment [KI7]:** Who proposed this? Is it by you, if not then cite the author.

**Comment [KI8]:** This is incorrect. Cronbach, the Joint Standard in Measurement (AERA et al. 2014) said it must be 0.80 and above.

**Comment [KI9]:**  $r^2$

Based on Table 2, it is shown that the result of the R-Square test in Makassar is 0.735, and Surabaya is 0.668, and therefore, such scores are closer to 1.0, in other words, the dependent value is more correlated and is supported to be used for further statistical analysis.

### 3.2 The Results of the Path Coefficient Test

Table 3. Path Coefficient (Hypothesis) Test Results

MAKASSAR					
	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
FL -> FB	0.592	0.592	0.079	7.458	0.000
LOC -> FB	0.301	0.306	0.083	3.650	0.000
SURABAYA					
	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
FL -> FB	0.509	0.512	0.085	5.976	0.000
LOC -> FB	0.341	0.343	0.082	4.189	0.000

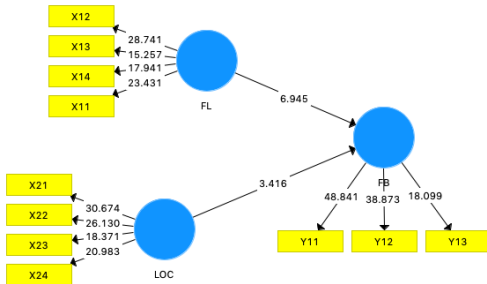


Fig. 2. Path Coefficients Test Results (Makassar)

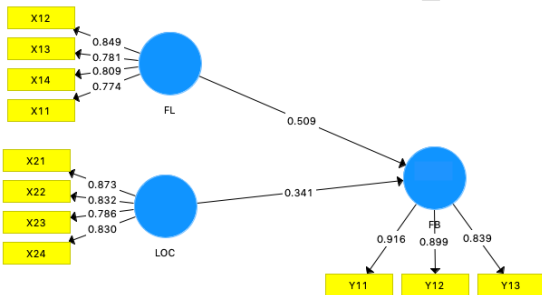


Fig. 3. Path Coefficients Test Results (Surabaya)

#### The Effect of FL on FB (Makassar)

Based on Table 3, Figure 2, and Figure 3, this study finds that there is a positive effect of FL on FB at the research location in Makassar, with a path coefficient score is 0.592. Additionally, based on the score of p-value, which is 0.000 or smaller than 0.05 (significant), this study accordingly confirms that CE affects PD significantly in a positive way, as such H1 and H2 are accepted.

**Comment [K110]:** Recast. You may say the p-value of 0.000 is an indication that CE affects PD significantly in a positive manner.

### The Effect of LOC on FB (Makassar)

Based on Table 3, Figure 2, and Figure 3, this study finds that there is a positive effect of PP on PD with a path coefficient score is 0.301. Additionally, this study implies that based on the score of P-Value, which is 0.000 or lower than 0.05 (significant), this study accordingly confirms that LOC has a positive significant effect on FB, and consequently, H3 and H4 are accepted.

Comment [KI11]: Delete

### The Effect of FL on FB (Surabaya)

Based on Table 3, Figure 2, and Figure 3, this study finds that there is a positive effect of FL on FB at the research location in Makassar, with a path coefficient score is 0.509. Additionally, based on the score of P-Value, which is 0.000 or smaller than 0.05 (significant), this study accordingly confirms that FL affects FB significantly in a positive way. As such H5 and H6 are accepted.

Comment [KI12]: Delete

### The Effect of LOC on FB (Makassar)

Based on Table 3, Figure 2, and Figure 3, this study finds that there is a positive effect of PP on PD with a path coefficient score is 0.341. Additionally, this study implies that based on the score of P-Value, which is 0.000 or lower than 0.05 (significant), this study accordingly confirms that LOC has a positive significant effect on FB, and consequently, H7 and H8 are accepted.

Comment [KI13]: Delete. it is not necessary.

## CONCLUSION

In line with the results of this study, it is important to conclude that both financial literacy and locus of control significantly influence SMEs' financial management behaviour. The results, which are in an earlier section, are also supported by the existing study from Rohmah [14], which recently confirmed financial literacy affects a firm's financial management behaviour. As such, it is important to suggest in this study that through the comparative analysis in two of many major cities in Indonesia, it is vital to help SMEs owners to stimulate them to improve their knowledge in financial literacy. The main reason is due to there will be financial issues inside SMEs, given the fact that SMEs tend to be associated with resource-limited firms, especially financial limitations. With sufficient training in financial literacy knowledge, the owners of SMEs tend to improve their locus of control indirectly which consequently also increases their financial management behaviour.

Comment [KI14]: This should come under discussion. Please provide more authors to support your study.

## Recommendation

Although the findings of this study can be used as a guideline for SMEs owners in improving their whole firms' performance, nevertheless, due to some research limitations of this study, namely: research time and sample size, it is important to recommend accordingly that further study should be conducted in more than two major cities in Indonesia with more sufficient research time in exploring the role of financial literacy and locus of control on SMEs, or bigger firms, e.g. large companies' financial management behaviour.

Comment [KI15]: Recommend based on your findings. You have only suggested further studies

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