

Improving Msme's Performance Through Financial Literacy and Financial Inclusion Mediated By Risk-Taking Entrepreneurship

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Abstract. *Currently, the development of MSME's is increasing rapidly which results in a lot of competition between businesses. However, many businesses have experienced a decline in performance due to inaccessible sources of financing and inadequate financial knowledge. This indicates that the company's performance in using financial literacy and financial inclusion is still not optimal. Therefore, MSME's need to apply the courage of MSME players in taking risks, this is important to obtain good financial inclusion and is useful for increasing financial literacy so that it has an impact on improving the performance of MSME's. This study aims to determine the role of risk-taking entrepreneurship in mediating financial literacy and financial inclusion which is useful for improving performance in Micro, Small and Medium Enterprises (MSME's). The sample in this study was 124 MSME's in the culinary field in Kendari City and Kab. South Konawe. The data collection method in this study used a questionnaire. The data were analyzed using Smart PLS software. The results showed that there was a positive and significant influence on financial literacy and financial inclusion on risk taking entrepreneurship, while risk taking entrepreneurship had a positive and significant effect on the performance of MSME's. The performance of MSME's can also be improved through risk taking entrepreneurship which comes from financial literacy and financial inclusion.*

Keywords: *Financial Literacy; Financial Inclusion; Risk Taking Entrepreneurship; MSME performance.*

1. Introduction

The economic growth of a country is supported by micro, small, and medium enterprises (MSMEs), especially for developing countries, MSMEs have a more important role in driving economic development (Bongomin, Ntayi, & Munene, 2017). A similar situation also occurs in MSMEs in Indonesia. MSMEs are one source of income for most Indonesian citizens, this business absorbs almost 117 million workers or 97% of the absorption of the business world's workforce, but only contributes 61.07% of the total Gross Domestic Product

(Ministry of Cooperatives and SMEs of the Republic of Indonesia). MSMEs are an economic sector that makes a significant contribution to economic growth and job creation.

Financial literacy is very much needed by MSMEs in running their businesses. For example, they must have the ability to prepare financial reports and funding activities that require financial knowledge (Dahmen & Rodriguez, 2014). Basically, the problems related to financial literacy faced by MSMEs are the problems of the majority of Indonesian society. The Indonesian government's concern for national issues related to the level of financial literacy is still lacking. The results of the 2016 national financial literacy survey showed that only 29.66% of Indonesians are literate (OJK, 2016).

The ability of MSMEs to develop, grow, sustain, and strengthen themselves is largely determined by their capacity to access and manage finance. Unfortunately, MSMEs including micro-enterprises and start-ups, in developing countries in East and South Asia such as Cambodia, China, Indonesia, Lao People's Democratic Republic (PDR), Malaysia, Philippines, Thailand, and Vietnam, as well as South Asian countries such as Bangladesh, India, Nepal, Pakistan, and Sri Lanka in the study of Abe et al (2015) consistently mention the lack of access to finance as a serious obstacle to their development (Economic and Social Commission for Asia and the Pacific (ESCAP), 2009).

MSME financing refers to various mechanisms to provide additional funds for MSME development such as capital and debt (Bar-El et al., 2017). Meanwhile, Indonesia has around 64.19 million micro, small, and medium enterprises (MSMEs) or around 99.99% of the total business units throughout Indonesia, but more than 50 million MSMEs are considered unbankable (do not have access to bank loans), of the IDR 5,075 trillion in credit disbursed by commercial banks in Indonesia, less than 20% or around IDR 1,015 trillion is intended for MSMEs (OJK, 2018; Bank Indonesia, 2018). According to the Ministry of Cooperatives and SMEs in 2019, around 80% of MSMEs in Indonesia experienced financing difficulties due to limited access to bank loans and financial institutions that were not easy to obtain. This happened because the requirements and loan application process were complicated and not easy to fulfill so that many banks did not serve small loan applications. Limited access to financial institutions has an impact on MSME capital, where business actors have difficulty obtaining capital from these financial institutions.

Business performance in MSMEs can be seen from the company's success in product quality, innovation, human resource management, customers, and financing (Fitriati et al., 2020). Business owners will run their businesses with the financial literacy they have. Financial literacy will have a good impact on MSME performance. However, there is a research gap that says that financial literacy has no effect on MSME performance. In their research, Adomako & Danso (2014) tested the factors that influence MSME performance and found that financial literacy has a significant effect on MSME performance. However, this is different from the research found by Eniola & Entebang (2015) that financial literacy has no significant effect on MSME performance.

Risk-taking behavior has a direct impact on company performance because companies that take more risks generally have higher performance and better financial returns (although unstable), compared to companies that are less interested in taking risks (Rasli, 2018). Thus, risk-taking in business (risk-taking entrepreneurship) plays an important role as a driver of the success of MSME performance (Boermans & Willebrands, 2017). Moreover, in uncertain conditions, risk-taking contributes to the success of MSME performance in determining actions (Aydemir & Aren, 2017), in this situation what will happen is predicted through the possible outcomes that may occur. Therefore, based on previous research, risk-taking entrepreneurship is an intermediary variable between financial literacy and financial inclusion on MSME performance.

2. Research Methods

This study uses an explanatory research type with a quantitative approach. This type of research aims to test a hypothesis in order to strengthen or even reject the hypothesis from the research results. With this quantitative approach based on the philosophy of positivism which is used to research certain populations or samples and data collection using research variables (Sugiyono, 2017).

3. Results and Discussion

3.1. The Influence of Financial Literacy on Risk Taking Entrepreneurship

Based on the results of testing the first hypothesis in this study, financial literacy has a positive influence on risk-taking entrepreneurship or it can be said that this variable has an influence to increase risk-taking entrepreneurship. The more knowledge in preparing financial reports and skilled in managing funding, the more MSME actors can always innovate with their products and take business opportunities due to their stable finances. In addition, MSMEs that have savings for funding purposes and know financial products, will dare to experience financial difficulties with uncertain results because of the savings they have.

The results of this study support previous research conducted by Muraga and John (2015), with good financial literacy entrepreneurs are able to use the ability to assess tolerance and take risks in improving their company's performance. This study also supports the research of Aydemir & Aren (2017) which shows that financial literacy as a cognitive component that can be learned can influence the risk-taking environment in entrepreneurial behavior.

Courage in taking risks plays an important role for MSMEs to develop MSME performance supported by financial literacy skills possessed by MSMEs. Therefore, financial literacy possessed by MSMEs can provide a greater influence on risk-taking entrepreneurship. So the higher the MSMEs have financial literacy in knowledge of preparing financial reports, have skills in managing funding, have savings for funding purposes, know financial products,

the higher the courage of business actors in taking risks to support business innovation and taking business opportunities.

3.2. The Influence of Financial Inclusion on Risk Taking Entrepreneurship

Based on the results of the second hypothesis test in this study, financial inclusion has a positive influence on risk-taking entrepreneurship. This means that the higher the access to financial services owned by MSMEs, the greater the courage to take risks. The results of this study are in accordance with previous research conducted by Taylor (2016), that finance plays an important function to mobilize savings, allocate capital and change risks by collecting and repackaging them. Financial inclusion as access to financial services with its considerations will affect risk taking when possibilities will occur. With financial access always available and affordable, risk taking in a business can be packaged well (Taylor, 2016).

The use of measurements in this study is different from several previous studies, where the indicators in previous studies were accessibility, availability, use, and quality. This study uses indicators to measure namely accessibility and affordability of financial services; availability of company capital needs; use of financial products and services; and quality in mentoring and suitability of financial institutions. These results indicate that in MSMEs increasingly have access to financial services to support their businesses, can meet business capital from financial services, can use financial products, and receive mentoring from financial institutions, then they will always look for opportunities and innovate with the available capital even though they do not know the certainty of the results. Therefore, the higher the financial inclusion, the higher the courage to take risks.

3.3. The Influence of Financial Literacy on MSME Performance

Based on the results of the third hypothesis test in this study, financial literacy has a positive influence on the performance of MSMEs. This means that the higher the financial literacy possessed by MSMEs, the better the performance of MSMEs. The more capable MSMEs are in preparing financial report activities (such as managing turnover and profits) and skilled in utilizing loan money for business activities, the more they can have maximum profit. In addition, by having savings, MSMEs will experience an increase in assets (property) due to investments in the form of savings.

The results of this study support previous research conducted by Dahmen and Rodríguez (2014), which found that there is a significant relationship between financial literacy and business performance. This relationship is logically applied to companies with good financial literacy that will be able to strategically identify and respond to changes in financial conditions so that decisions taken will create appropriate and well-directed solutions to improve company performance (Dahmen and Rodríguez, 2014).

3.4. The Influence of Financial Inclusion on MSME Performance

Based on the results of the fourth hypothesis test in this study, financial inclusion has a positive influence on the performance of MSMEs. This means that the higher the financial inclusion owned by MSMEs, the better the performance of MSMEs. The more affordable and adequate access to financial services and the ease of obtaining business capital, the easier it will be for MSMEs to increase sales and gain increased profits. In addition, with financial inclusion, MSMEs will use financial products for activities to facilitate business so that the process of funding and business transactions is easier, which ultimately increases sales and business performance.

This study supports previous research conducted by Ibor et al., (2017), showing that by making financial access available and affordable for economic agents, a business will work well so that business performance will increase. In his research, he concluded that there is a significant relationship between financial inclusion and the performance of micro, small and medium enterprises. The inclusive financial policy has a significant and positive impact on the performance of MSMEs. The results of this study, which have a significant positive value, also answer the phenomenon that occurs, where good financial inclusion can fulfill business financing so that business performance increases.

3.5. The Influence of Risk Taking Entrepreneurship on MSME Performance

Based on the results of the fifth hypothesis test in this study, risk-taking entrepreneurship has a positive influence on the performance of MSMEs. This means that the higher the risk-taking entrepreneurship owned by MSMEs, the better the performance of MSMEs. The more they have the drive to innovate and are confident in taking business opportunities, the more MSMEs will experience sales growth due to product innovation so that they get increased profits. In addition, MSME actors who dare to experience financial difficulties have the opportunity to get higher financial returns so that they can increase sales and profits.

The results of this study support the research conducted by Rasli (2018), showing that risk plays a role in company performance because companies that take more risks generally have higher performance and better financial returns (although unstable). Various studies have found that risk taking is one of the characteristics that determine entrepreneurs to influence business results (Boermans & Willebrands, 2017). The use of this variable measurement is different from several previous studies, where previous studies used indicators of propensity to take risk investment, revenue risk, loss risk, risk of financial difficulties.

3.6. The Influence of Financial Literacy on MSME Performance through Risk Taking Entrepreneurship

Based on the results of the mediation effect test, financial literacy can improve MSME performance through the courage of MSME actors in taking risks. Ownership of financial literacy by MSME actors can be used to prepare various financial plans, such as bookkeeping

activities, preparation of capital turnover, unexpected funding plans, knowledge of financial products and services for business funding. The more financial literacy, the more MSME actors will experience increased sales and profit growth, this is also supported by the existence of risk-taking entrepreneurship by taking advantage of opportunities and always innovating. Daring in taking risks is important for business actors, because when a business actor has good financial knowledge but does not dare to take existing risks, then his business will not grow because he does not have the courage to take opportunities and innovate.

The courage to take risks will make business actors create innovation and creativity, be braver to go further in seeking business opportunities, this is due to the existence of plans and knowledge that exist even though the certainty of the results is not certain, but this will make the development of business performance better and get financial returns faster and more regularly. Based on careful calculations of company risk taking and increasing business innovation for the future, it results in higher MSME performance because of the plans and knowledge that have been prepared. The results show that the problem in this study is answered with the results of the mediation variable, namely risk taking entrepreneurship can mediate the relationship between financial literacy and MSME performance. So when a company has the courage to take high risks, it will increase the relationship between financial literacy and MSME performance because daring to take risks to seek opportunities and create business innovations can make existing financial knowledge realized properly. So to have a successful and growing business performance, there needs to be courage for MSME actors in taking risks.

3.7. The Influence of Financial Inclusion on MSME Performance through Risk Taking Entrepreneurship

Based on the results of the mediation effect test, financial inclusion can improve the performance of MSMEs through the courage to take risks by MSME actors. Good financial inclusion will provide access to financial services for financing activities in business, such as meeting funding needs, being able to use financial products optimally, getting assistance from financial services so that there is no difficulty in getting business financing. The greater the financial inclusion owned by MSMEs, the sales and profit growth will increase because the business capital is fulfilled, this will increase performance with financial inclusion. The courage to take risks is important for business actors, because if business actors already have good financial inclusion but do not have the courage to take risks, then the available funding and capital are not used to take opportunities to increase sales and make innovations, so that their business performance does not develop.

The results show that the problem in this study is answered by the presence of a mediating variable, namely risk-taking entrepreneurship can mediate the relationship between financial inclusion and MSME performance. This is evidenced by the results of this study which have a significant positive value. Where risk-taking entrepreneurship is owned by

MSME actors to utilize existing financial inclusion in improving MSME performance. The courage to take risks in creating innovation and taking opportunities will make business funding and capital run well to improve MSME performance. So that to have successful business performance, courage is needed in taking risks by MSME actors and good financial inclusion ownership.

4. Conclusion

Financial literacy can improve the performance of MSMEs through risk-taking entrepreneurship. When a company has the courage to take high risks, it will increase the relationship between financial literacy and MSME performance because daring to take risks to seek opportunities and create business innovations can make existing financial knowledge well realized. So that in order to have a successful and growing business performance, MSME actors need to have the courage to take risks. These results indicate that the problem in this study is answered by the results of the mediation variable, namely risk-taking entrepreneurship can mediate the relationship between financial literacy and MSME performance. Furthermore, financial inclusion can improve MSME performance through risk-taking entrepreneurship. The results of the study indicate that the problem in this study is answered by the results of the mediation variable, namely risk-taking entrepreneurship can mediate the relationship between financial inclusion and MSME performance. The courage to take risks in creating innovation and taking opportunities will make business funding and capital run well to improve MSME performance. So that in order to have a successful business performance, courage is needed in taking risks by MSME actors and good financial inclusion ownership.

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