

THE INFLUENCE OF DIGITAL FINANCIAL LITERACY ON INDONESIAN SMES' FINANCIAL BEHAVIOR AND FINANCIAL WELL-BEING

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ARTICLE INFO	ABSTRACT
<p>Article history:</p> <p>Received 01 September 2023</p> <p>Accepted 08 December 2023</p>	<p>Purpose: This study investigates the multifaceted impact of digital financial literacy on the financial well-being of Small and Medium-sized Enterprises (SMEs). Recognizing the pivotal role of digital financial literacy in contemporary business landscapes, we explore how SMEs' comprehension and utilization of digital financial tools influence their financial behavior and, subsequently, their overall financial well-being.</p>
<p>Keywords:</p> <p>Digital Financial Literacy; Financial Behavior; Financial Well-Being; Small-Medium Enterprise.</p>	<p>Theoretical framework: Drawing on a comprehensive literature review, we delve into the various dimensions of digital financial literacy, including access to capital, financial management practices, risk mitigation, and market expansion. The research also examines the mediating role of financial behavior, elucidating how informed decision-making, efficient budgeting, and adept financial management act as crucial intermediaries in the relationship between digital financial literacy and SMEs' financial well-being.</p>
	<p>Design/Methodology/Approach: The study used quantitative method with online questionnaires as data collection tool. The population in this study was SMEs owner in Indonesia, focusing in four cities: Medan, Surabaya, Makassar, and Bali. The sampling technique employed was purposive sampling, involving a total of 186 respondents. The collected data underwent analysis through the Partial Least Square-Structural Equation Model (PLS-SEM).</p> <p>Findings: The results of data analysis indicate that digital financial literacy significantly affects financial behavior as well as SMEs' financial well-being. Financial behavior significantly affects SMEs' financial well-being, as well as plays the mediating role between digital financial literacy and SMEs' financial well-being.</p> <p>Research, Practical & Social implications: The findings of this study carry profound implications for both academics and practitioners in the realm of business and finance. One key implication is the critical role of education and training programs aimed at enhancing digital financial literacy among SME owners and stakeholders. Moreover, the findings underscore the importance of fostering an environment conducive to digital financial literacy adoption.</p> <p>Originality/Value: The findings of this study hold significant implications for policymakers, financial institutions, and SME owners seeking to foster economic resilience and growth in the digital era. Through empirical investigation and data analysis, this study provides actionable insights that contribute to the advancement of digital financial literacy initiatives, ultimately enhancing the financial well-being of SMEs in an increasingly digitized business environment.</p> <p>Doi: https://doi.org/10.26668/businessreview/2023.v8i12.4164</p>

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A INFLUÊNCIA DA LITERACIA FINANCEIRA DIGITAL NO COMPORTAMENTO FINANCEIRO E NO BEM-ESTAR FINANCEIRO DAS PME INDONÉSIAS

RESUMO

Objetivo: Este estudo analisa o impacto multifacetado da literacia financeira digital no bem-estar financeiro das pequenas e médias empresas (PME). Reconhecendo o papel fundamental da literacia financeira digital nos cenários empresariais contemporâneos, exploramos a forma como a compreensão e a utilização de ferramentas financeiras digitais por parte das PME influenciam o seu comportamento financeiro e, subsequentemente, o seu bem-estar financeiro global.

Estrutura teórica: Com base em uma revisão abrangente da literatura, examinamos as várias dimensões da alfabetização financeira digital, incluindo o acesso ao capital, as práticas de gestão financeira, a mitigação de riscos e a expansão do mercado. A pesquisa também examina o papel de mediação do comportamento financeiro, elucidando como a tomada de decisões informadas, a orçamentação eficiente e a gestão financeira adequada agem como intermediários cruciais na relação entre a alfabetização financeira digital e o bem-estar financeiro das PME.

Design/Methodologia/Abordagem: O estudo usou método quantitativo com questionários on-line como ferramenta de coleta de dados. A população deste estudo era proprietária de PMEs na Indonésia, concentrando-se em quatro cidades: Medan, Surabaya, Makassar e Bali. A técnica de amostragem empregada foi a amostragem intensiva, envolvendo um total de 186 entrevistados. Os dados coletados foram analisados por meio do Modelo de Equação Parcial Mínimo Quadrado-Estrutural (PLS-SEM).

Constatações: Os resultados da análise de dados indicam que a literacia financeira digital afeta significativamente o comportamento financeiro, bem como o bem-estar financeiro das PME. O comportamento financeiro afeta significativamente o bem-estar financeiro das PME e desempenha o papel de mediador entre a literacia financeira digital e o bem-estar financeiro das PME.

Investigação, Implicações práticas e Sociais: Os resultados deste estudo trazem implicações profundas para acadêmicos e profissionais no campo dos negócios e finanças. Uma implicação fundamental é o papel crucial dos programas de educação e formação destinados a melhorar a literacia financeira digital entre os proprietários de PME e as partes interessadas. Além disso, as conclusões sublinham a importância de promover um ambiente propício à adoção da literacia financeira digital.

Originalidade/Valor: os resultados deste estudo têm implicações significativas para os formuladores de políticas, instituições financeiras e proprietários de PME que buscam promover a resiliência econômica e o crescimento na era digital. Através de investigação empírica e análise de dados, este estudo fornece percepções acionáveis que contribuem para o avanço de iniciativas de alfabetização financeira digital, em última análise, melhorando o bem-estar financeiro das PME em um ambiente empresarial cada vez mais digitalizado.

Palavras-chave: Literacia Financeira Digital, Comportamento Financeiro, Bem-Estar Financeiro, Pequenas e Médias Empresas.

LA INFLUENCIA DE LA ALFABETIZACIÓN FINANCIERA DIGITAL EN EL COMPORTAMIENTO FINANCIERO Y EL BIENESTAR FINANCIERO DE LAS PYMES INDONESIAS

RESUMEN

Objetivo: Este estudio investiga el impacto multifacético de la alfabetización financiera digital en el bienestar financiero de las pequeñas y medianas empresas (pymes). Reconociendo el papel fundamental de la alfabetización financiera digital en los entornos empresariales contemporáneos, exploramos cómo la comprensión y utilización de herramientas financieras digitales por parte de las pymes influye en su comportamiento financiero y, posteriormente, en su bienestar financiero general.

Marco teórico: A partir de una revisión completa de la literatura, profundizamos en las diversas dimensiones de la alfabetización financiera digital, incluyendo el acceso al capital, las prácticas de gestión financiera, la mitigación de riesgos y la expansión del mercado. La investigación también examina el papel mediador del comportamiento financiero, dilucidando cómo la toma de decisiones informada, la presupuestación eficiente y la gestión financiera adecuada actúan como intermediarios cruciales en la relación entre la alfabetización financiera digital y el bienestar financiero de las pymes.

Diseño/Methodología/Enfoque: El estudio utilizó el método cuantitativo con cuestionarios en línea como herramienta de recolección de datos. La población en este estudio era propietaria de PYMES en Indonesia, centrándose en cuatro ciudades: Medan, Surabaya, Makassar y Bali. La técnica de muestreo empleada fue el muestreo intencional, involucrando a un total de 186 encuestados. Los datos recolectados fueron sometidos a análisis a través del Modelo de Ecuaciones Estructurales Parciales de Mínimos Cuadrados (PLS-SEM).

Hallazgos: Los resultados del análisis de datos indican que la alfabetización financiera digital afecta significativamente el comportamiento financiero, así como el bienestar financiero de las pymes. El comportamiento financiero afecta significativamente al bienestar financiero de las pymes, así como desempeña el papel de mediador entre la alfabetización financiera digital y el bienestar financiero de las pymes.

Investigación, Implicaciones prácticas y Sociales: Los hallazgos de este estudio conllevan profundas implicaciones tanto para los académicos como para los profesionales en el ámbito de los negocios y las finanzas. Una de las principales consecuencias es el papel fundamental de los programas de educación y formación destinados a mejorar la alfabetización financiera digital entre los propietarios y las partes interesadas de las PYME. Además, los resultados subrayan la importancia de fomentar un entorno propicio para la adopción de conocimientos financieros digitales.

Originalidad/Valor: Los hallazgos de este estudio tienen implicaciones significativas para los responsables de las políticas, las instituciones financieras y los propietarios de PYME que buscan fomentar la resiliencia económica y el crecimiento en la era digital. A través de la investigación empírica y el análisis de datos, este estudio proporciona información práctica que contribuye al avance de las iniciativas de alfabetización financiera digital, en última instancia, la mejora del bienestar financiero de las PYME en un entorno empresarial cada vez más digitalizado.

Palabras clave: Alfabetización Financiera Digital, Comportamiento Financiero, Bienestar Financiero, Pequeña y Mediana Empresa.

INTRODUCTION

In today's rapidly evolving economic landscape, the digital transformation has left an indelible mark on the way businesses operate, especially for Small and Medium-sized Enterprises (SMEs). The digital realm has not only changed the way SMEs conduct their day-to-day operations but has also reshaped the financial landscape, offering new avenues for growth and prosperity. However, the successful navigation of this digital financial landscape is contingent on one crucial factor: Digital Financial Literacy.

Previous studies have underscored the significance of digital financial literacy for SMEs, both in Indonesia and on a global scale (Setiawan et al., 2020; Rajdev et al., 2020). According to International Finance (2021), Indonesia is currently the fastest growing market for digital wallets, especially during the Covid-19 pandemic. In addition, international studies, such as the World Bank's Global Findex database, have emphasized the positive correlation between financial literacy and financial well-being, particularly among SMEs (World Bank, 2017).

Indonesia, as one of the world's most vibrant emerging markets, has seen a significant surge in the adoption of digital financial tools among its SMEs. This phenomenon has sparked a growing interest in understanding how the level of digital financial literacy among Indonesian SMEs influences their financial well-being. It is evident that the ability of these businesses to harness digital financial resources effectively can either lead to substantial growth and resilience or, conversely, hinder their financial well-being (Aulia et al., 2023; Jhonson et al., 2023; Safitri et al., 2022).

Based on information provided by the Ministry of SME Cooperatives, data indicates that digital financial literacy within the SME sector remains considerably limited, with a mere 16% growth rate. This low level of digital financial literacy can be attributed to a significant challenge linked to financial reporting among MSMEs (Widyaningsih et al., 2021). The Ministry of SME Cooperatives has elaborated that startup and MSMEs, as key players in this domain, require digital financial services. These services are sought after for their potential to enhance the efficiency and effectiveness of business operations and streamline the accessibility of working capital financing.

This research seeks to build upon the insights from previous studies and further explore the intricate relationship between digital financial literacy and the financial well-being of Indonesian SMEs. We aim to examine how well-informed SMEs are about digital financial tools, their capabilities to utilize these tools, and the impact this has on their financial stability and growth potential. This study is a critical contribution to the broader discourse on the digital transformation of SMEs and the pivotal role that digital financial literacy plays in shaping their financial destinies. By delving into this important topic, we can provide valuable insights to policymakers, financial institutions, SME owners, and researchers alike, with the ultimate goal of enhancing the prosperity and resilience of Indonesian SMEs in the digital era.

LITERATURE REVIEW

Recognizing the pivotal role of digital financial literacy in contemporary business landscapes, we explore how SMEs' comprehension and utilization of digital financial tools influence their financial behavior and, subsequently, their overall financial well-being. The research also examines the mediating role of financial behavior, elucidating how informed decision-making, efficient budgeting, and adept financial management act as crucial intermediaries in the relationship between digital financial literacy and SMEs' financial well-being.

Digital Financial Literacy

Digital financial literacy involves the knowledge, skills, and understanding required to effectively navigate and utilize digital financial tools and resources (Prasad & Meghwal, 2017). It encompasses competencies such as mobile banking, online payments, understanding cryptocurrencies, and the ability to make informed decisions in the digital financial landscape. Morgan et al. (2019) stated that digital financial literacy consists of four key elements,

encompassing understanding of digital financial products and services, awareness of risks associated with digital finance, comprehension of strategies for digital financial risk management, and knowledge of consumer rights and procedures for seeking recourse.

Digital financial literacy for SMEs entails the capacity to effectively understand and utilize digital financial tools and technologies to manage financial resources, access capital, and make informed financial decisions in a digitized environment (Setiawan et al., 2020). Research suggests that SMEs with a high level of digital financial literacy are better equipped to manage their finances effectively (Aulia et al., 2023). They can utilize digital tools for tasks such as financial record-keeping, cash flow management, and cost control, ultimately leading to improved financial performance.

Digital Financial Literacy and Financial Behavior

Digital financial literacy has become an increasingly critical component in understanding and shaping financial behavior, both at the individual and organizational levels. Studies have demonstrated a positive correlation between digital financial literacy and individuals' propensity to save and invest (Tony & Desai, 2020; Zulaihati et al., 2020; Morgan and Trinh, 2019). Those who are more digitally financially literate tend to use digital tools for setting financial goals, budgeting, and investing in financial assets. Digital financial literacy equips individuals with the ability to make informed financial decisions. They can compare financial products, understand the implications of interest rates, and assess the risks and rewards of various investments (Setiawan et al., 2020).

For small and medium-sized enterprises (SMEs), digital financial literacy is crucial for improving financial management, optimizing cash flow, and accessing financing (Diptyana et al., 2022). SMEs with higher digital financial literacy are more likely to utilize digital payment systems, manage their financial records more effectively, and make better financial decisions. It empowers them to explore new business models, expand into e-commerce, and adapt to changing market conditions, all of which can positively impact their financial behavior (Rahayu et al, 2022).

H₁: DFL significantly affects Financial Behavior.

Digital Financial Literacy and SMEs' Financial Well-Being

Research indicates that SMEs with higher digital financial literacy have greater access to capital and funding options (Nguyen & Luu, 2013). They can leverage digital financial

platforms to seek investment, apply for loans, and access alternative financing, which positively impacts their financial well-being (Ranatunga et al., 2020; Kulathunga et al., 2020). SMEs with strong digital financial literacy exhibit better financial management practices. They can efficiently manage cash flows, monitor expenses, and make data-driven decisions, leading to improved financial health and sustainability (Agyapong & Attram, 2019). SMEs with digital financial literacy are more likely to expand into new markets and seize growth opportunities. Their ability to adapt to the digital economy fosters business growth and, consequently, improved financial well-being (Diptyana et al., 2022).

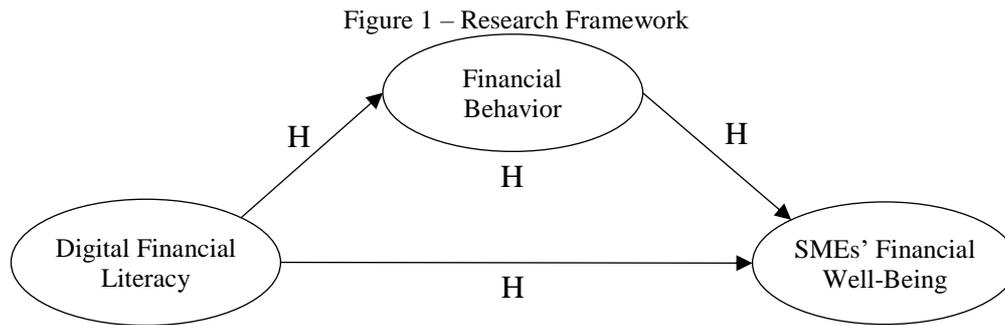
H₂: DFL significantly affects SMEs' Financial Well-Being.

Digital Financial Literacy, Financial Behavior, and SMEs' Financial Well-Being

According to Johnson et al. (2023), digital financial literacy holds a significant influence on the financial well-being of Small and Medium-sized Enterprises (SMEs) by virtue of its impact on financial behavior, which acts as a mediating variable in this intricate relationship. SMEs equipped with digital financial literacy exhibit informed financial behaviors, such as efficient budgeting, smart financial decision-making, and streamlined financial management (Rahayu et al., 2022). They can analyze financial data and choose the most appropriate financial strategies. These financial behaviors, in turn, contribute to the overall financial health and well-being of SMEs (Sumani & Roziq, 2020). By making well-informed decisions, optimizing financial processes, and accessing capital more efficiently through digital channels, SMEs enhance their financial resilience, reduce risks, and ultimately bolster their financial well-being (Johnson et al., 2023). The interplay between digital financial literacy, financial behavior, and financial well-being underscores the pivotal role of knowledge and skills in the digital financial landscape, as SMEs strive for economic sustainability and growth in an increasingly digitized business environment.

H₃: DFL significantly affects SMEs' Financial Well-Being through Financial Behavior.

H₄: Financial Behavior significantly affects SMEs' Financial Well-Being.



Source: Prepared by Authors (2023)

DATA AND METHODOLOGY

This study used quantitative method with online questionnaires as data collection tool. The population in this study was SMEs owner in Indonesia, focusing in four cities: Medan, Surabaya, Makassar, and Bali. The sampling technique employed was purposive sampling, involving a total of 186 respondents. The sample criterion of this study was that SMEs must have operated more than one year, so that they have enough time to measure their financial performance.

Online questionnaires were distributed to assess respondents' digital financial literacy, financial behavior, and their SMEs' Financial Well-Being by utilizing various indicators as employed in prior research. DFL was measured using 10 indicators adopted by Setiawan et al. (2020), financial behavior was measured using 10 indicators adopted by Setiawan et al. (2020), and SMEs' financial well-being was measured using 6 indicators adopted by Agyei et al. (2019). The collected data underwent analysis through the Partial Least Square-Structural Equation Model (PLS-SEM).

RESULTS AND DISCUSSION

186 respondents were selected for this study, and the profile of the respondents is showed in Table 1. As shown in the table, majority of the respondents were male, age 21-30 years old, had a bachelor's degree, Moslem, located in Surabaya, East Java, and their business has been operating for 1-2 years.

Table 1 – Respondents' Profile

Characteristics	Description	Quantity	Percentage
Gender	Male	93	53.76%
	Female	80	46.24%
Age	20 – 30 years old	75	43.35%
	31 – 40 years old	48	27.75%
	41 – 50 years old	27	15.61%
	51 – 60 years old	23	13.29%

Education Level	Lower than High School	4	2.31%
	High School Graduate	75	43.35%
	Diploma Graduate	8	4.62%
	Bachelor's Degree	78	45.09%
	Master's Degree	8	4.62%
Religion	Christian	53	30.64%
	Catholic	23	13.29%
	Hinduism	19	10.98%
	Buddhism	7	4.05%
	Moslem	71	41.04%
Business Location	Surabaya	51	29.48%
	Bali	42	24.28%
	Medan	35	20.23%
	Makassar	45	26.01%
Business Age	1 – 2 years	61	35.26%
	3 – 4 years	32	18.50%
	5 – 6 years	19	10.98%
	More than 6 years	61	35.26%

Source: Prepared by Authors (2023)

Table 2 shows the result of validity and reliability test. Convergent validity was assessed by the loading factor and AVE. The value of the loading factor is expected to be between 0.5 to 0.7, and the value of AVE is expected to be higher than 0.5. Discriminant validity was assessed based on the Fornell-Larcker value which is expected to be higher than the correlation value between one construct and another (Table 3). Reliability test was assessed by the value of composite reliability which is expected to be higher than 0.7.

Table 2. Validity and Reliability Test

Variable	Indicators	Loading Factor	AVE	Composite Reliability
Digital Financial Literacy	DFL1	0.772	0.564	0.927
	DFL2	0.703		
	DFL3	0.810		
	DFL4	0.862		
	DFL5	0.854		
	DFL6	0.794		
	DFL7	0.571		
	DFL8	0.647		
	DFL9	0.796		
	DFL10	0.646		
Financial Behavior	FinB1	0.784	0.543	0.922
	FinB2	0.799		
	FinB3	0.799		
	FinB4	0.786		
	FinB5	0.677		
	FinB6	0.644		
	FinB7	0.726		
	FinB8	0.760		
	FinB9	0.631		
	FinB10	0.739		
SMEs' Financial Well-Being	FWB1	0.797	0.670	0.924
	FWB2	0.820		

FWB3	0.862
FWB4	0.873
FWB5	0.863
FWB6	0.680

Source: Prepared by Authors (2023)

Table 3. Fornell-Larcker Test

	Digital Financial Literacy	Financial Behavior	SMEs' Financial Well-Being
Digital Financial Literacy	0.751		
Financial Behavior	0.647	0.737	
SMEs' Financial Well-Being	0.670	0.563	0.0819

Source: Prepared by Authors (2023)

Table 4 shows the result of R^2 and Q^2 test. The contribution of digital financial literacy to financial behavior is 0.418 or 41.8%, while the contribution of financial behavior to SMEs' financial well-being is 0.477 or 47.7%. Furthermore, the results of the predictive relevance value (Q^2) is 0.216 for financial behavior and 0.304 for SMEs' financial well-being.

Table 4. R-Square & Q-Square Test

Variables	R-Square	Q-Square
Financial Behavior	0.418	0.216
SMEs' Financial Well-Being	0.477	0.304

Source: Prepared by Authors (2023)

Table 5. Hypothesis Test

Hypothesis	Original Sample	t-statistics	P-values
Digital Financial Literacy → Financial Behavior	0.647	10.960	0.000
Digital Financial Literacy → SMEs' Financial Well-Being	0.526	7.017	0.000
Digital Financial Literacy → Financial Behavior → SMEs' Financial Well-Being	0.223	3.278	0.001
Financial Behavior → SMEs' Financial Well-Being	0.144	2.987	0.003

Source: Prepared by Authors (2023)

Table 5 shows the result of hypothesis test, if the p-values is lower than 0.05 then the hypothesis is supported. Based on the research findings, the p-values of all hypothesis are lower than 0.05, therefore all hypothesis were accepted.

DISCUSSION

Digital financial literacy significantly affects financial behavior of SMEs owner in Indonesia. This is in line with previous research by Setiawan et al. (2020), Rahayu et al. (2022) and Kumar et al. (2023). Better digital financial literacy can help SME owners to be more

rational in managing their finances, such as saving and spending. Moreover, the presence of e-wallets or electronic money has a beneficial effect on SMEs, leading to enhanced transactional growth, improved maintenance of consistent financial records, and heightened financial literacy.

Digital financial literacy significantly affects SMEs' financial well-being. A proficient level of digital financial literacy is essential to foster favorable financial well-being, enabling individuals to effectively navigate both future financial planning and unforeseen economic challenges. This finding aligns with the findings of several pertinent studies, including those conducted by Aulia et al. (2023) and Johnson et al. (2023), all of which identify a positive and substantial correlation between digital financial literacy and financial well-being.

Digital financial literacy significantly affects SMEs' financial well being through financial behavior. In essence, the effectiveness of digital financial literacy in contributing to SMEs' financial well-being is contingent on the quality of their financial behavior; a more favorable financial behavior amplifies the positive impact of digital financial literacy on financial well-being. This finding resonates with a study conducted by Johnson et al. (2023), Chavali et al. (2021) and Iramani et al. (2020).

Financial behavior significantly affects SMEs' financial well being. This finding aligns with previous studies by Gosal (2023) and Sumani & Roziq (2020). SMEs who consistently exhibit sound financial habits, including regular saving, disciplined expense management, timely bill payments, periodic financial transaction recording, and the maintenance of an emergency fund, are objectively more likely to enjoy elevated levels of financial well-being compared to those who lack such prudent financial behaviors. Essentially, individuals who engage in more responsible financial practices and demonstrate a commitment to financial planning are more apt to attain heightened financial well-being.

RESEARCH IMPLICATIONS

The findings of this study carries profound implications for both academics and practitioners in the realm of business and finance. The impact of digital financial literacy on SMEs' financial behavior is indicative of the transformative potential embedded in the digital landscape, providing a lens through which we can comprehend and address the evolving dynamics of SME financial management.

One key implication is the critical role of education and training programs aimed at enhancing digital financial literacy among SME owners and stakeholders. Initiatives that equip

SMEs with the knowledge and skills to navigate digital financial tools can directly influence their financial behavior. As SMEs become more proficient in using digital platforms for financial planning, budgeting, and decision-making, they are likely to exhibit behaviors that contribute positively to their financial well-being.

Moreover, the findings underscore the importance of fostering an environment conducive to digital financial literacy adoption. Government agencies, financial institutions, and industry associations should collaborate to create policies that incentivize and facilitate the integration of digital financial tools into SME operations. Accessible and user-friendly digital platforms, combined with educational resources, can empower SMEs to leverage technology effectively, thereby influencing their financial behavior positively.

CONCLUSION

In the context of the Indonesian Small and Medium-sized Enterprises (SMEs), this research unequivocally establishes a consequential link between digital financial literacy, financial behavior, and the overall financial well-being of these businesses. The findings highlight the transformative power of digital financial literacy in shaping the financial landscape of SMEs in Indonesia.

The observed significant influence of digital financial literacy on financial behavior highlights the pivotal role that knowledge and proficiency in digital financial tools play in guiding decision-making processes among SME owners. As SMEs embrace digital financial literacy, they exhibit behaviors such as effective financial planning, optimized budgeting, and informed financial management, all of which contribute directly to their financial well-being.

Crucially, the impact extends beyond behavioral changes; it resonates with the broader financial health of SMEs in Indonesia. As these businesses leverage digital financial tools more adeptly, they gain improved access to capital, streamline financial operations, and enhance their overall financial resilience. This not only signifies a positive trajectory for individual SMEs but also holds promising implications for the economic ecosystem at large.

While this research establishes a notable correlation between digital financial literacy and financial behavior, future studies could delve deeper into the causality of this relationship to understand the mechanisms through which digital financial literacy shapes specific financial behaviors among SMEs. Moreover, extending the research to include cross-cultural analyses would provide a broader perspective on the universality of the relationship. Finally, investigating potential moderating factors, such as industry type, firm size, or regional

economic conditions, could deepen our understanding of the boundary conditions of the observed relationship and contribute to more targeted and effective strategies for promoting digital financial literacy in SMEs.

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