Financial Literacy and its Implications for Business Sustainability of Young Entrepreneurs

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Abstract. One of the focuses of the Sustainable Development Goals is to create decent work and economic growth (Decent Work and Economic Growth), which is to promote sustainable and inclusive economic growth, employment and decent work for all. One of the big challenges for the Indonesian people is the burden of unemployment as a result of the narrowing of job opportunities. Concrete efforts are needed so that the number of unemployed can be reduced, one of which is through increasing the number of entrepreneurs in Indonesia. However, the data shows that almost 90% of startups in Indonesia end up in failure due to low financial literacy which has an impact on poor financial behavior. This study was conducted to examine the effect of financial literacy on business sustainability with financial behavior as a mediating variable. This study uses a quantitative approach with descriptive verification method. The analysis technique that will be used is SEM (Structural Equation Modeling) analysis with the help of SmartPLS 4.0 software. The research respondents were young entrepreneurs from the Universitas Pendidikan Indonesia (UPI) students represented by UPI students who are members of the Himpunan Pengusaha Muda Indonesia (HIPMI) PT UPI with a total of 96 respondents. The results show that the type of mediation that occurs in this study is "Perfect Mediation" where the relationship between the variables of Financial Literacy and Business Sustainability is not directly significant, while the relationship between Financial Literacy and Business Sustainability variables with the mediation of Financial Behavior variables is significant. The findings of this study are expected to be able to provide recommendations regarding the development of financial inclusion policies, especially for the younger generation, education to improve financial literacy and policies in providing stimulus for young entrepreneurs to be able to maintain their business sustainability with a financial approach.

Keywords: Business Sustainability, Financial Behavior, Financial Literacy, Young Entrepreneurs

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INTRODUCTION

Sustainable Development Goals (SDGs) is the main issue currently being promoted by the government. Sustainable Development Goals is an effort to improve welfare and prosperity for all aspects of community, nation and state life in the long term (Yuliawati et al, 2017). One of the focuses of the Sustainable Development Goals is to create decent work and economic growth, which is to promote sustainable and inclusive economic growth, employment and decent work for all.

Basically, one of the big challenges for the Indonesian people is the burden of unemployment including educated unemployment as a result of the narrowing of available job opportunities. Concrete efforts are needed so that the number of unemployed can be reduced, one of which is through increasing the number of entrepreneurs in Indonesia. The entrepreneurial sector is still considered to be one of the driving forces of the people's economy, in addition to contributing to reducing unemployment, the entrepreneurial sector also has an important role in the development of local economic activities and community empowerment.

However, based on data in 2019, the ranking of entrepreneurs in Indonesia ranks 94th out of 137 countries with a number reaching 3.5% of the total population ratio. The ranking of entrepreneurs in Indonesia is still relatively low compared to other countries. Even Indonesia is still far behind compared to neighboring countries, such as Malaysia, Thailand, and Singapore, which have reached above 4% (Humas Ditjen Dikti, 2021).

Various policies have been carried out by the government to encourage an increase in the number of young entrepreneurs in Indonesia. One of them is a synergy program between the government and universities to produce young entrepreneurs who are starting to enter the business world through start-up businesses. But the problem is that there are so many start-ups from young entrepreneurs that are not sustainable. Data shows that almost 90% of the startup businesses of young Indonesian entrepreneurs end in failure (Medina, 2021).

Newly started businesses usually experience several financial problems such as cash deficit syndrome, which is a condition when a new company experiences financial difficulties which is indicated by a frequent shortage of cash to fund operational and investment activities, running out of funds, accumulating debt, and ending in bankruptcy. This happens as a result of bad financial behavior. The financial behavior is a product of the financial attitude you have, the more positive the financial attitude you have, the better the financial behavior shown will be. The factors that form the financial attitude itself is financial literacy (Krishna, et al., 2010).

Financial literacy is very helpful in making choices and taking effective steps to improve financial well-being (Lusardi & Mitchell, 2011). Previous research stated that literate individuals will be able to do things well such as: budgeting, saving, controlling spending (Perry & Morris, 2005); manage debt (Lusardi & Tufano, 2015); participate in the capital market (Van Rooij et.al., 2011; Lusardi & Mitchell, 2011; Jappelli & Padula, 2013; Yoong, 2011); planning for retirement (Lusardi & Mitchell, 2007; Lusardi & Mitchell, 2008); and the most important thing is to successfully accumulate wealth (Stango & Zinman, 2009). It can be said that with an individual's understanding of good financial knowledge, the better his financial behavior will be. Financial behavior is associated with financial management behavior, namely a person's ability to plan, check, manage, control and save the money they have (Sabri et al., 2015).

The results of the research of Ye, J. & Kulathunga, K.M.M.C.B. (2019) found that financial literacy affects the sustainability of MSMEs in Sri Lanka. This is in line with research conducted by Ningtyas & Andarsari (2021) and Puspitaningtyas (2017) which states that there is a unidirectional relationship between financial literacy, financial behavior and business sustainability.

Business decisions taken by business actors today will have an important impact on the financial security of their business in the future. In addition, to continue to run their business in the future, they need to develop effective financial planning where it requires an understanding of financial knowledge (Lusardi & Mitchell, 2008; Puspitaningtyas, 2017). Business financial management that is not based on standards will tend to run ineffectively. Without this, business decision making will be ineffective so that it will have an impact on the continuity of a business (business sustainability). (Puspitaningtyas, 2017).

This study aims to analyze the relationship between financial literacy and financial behavior of young entrepreneurs as a mediating variable on the sustainability of their business. The study was conducted on young entrepreneurs among students at the Universitas Pendidikan Indonesia.

METHOD

This research uses descriptive verification method. Descriptive research in this study was conducted to describe the description of financial literacy, financial behavior and business sustainability of young entrepreneurs in the Universitas Pendidikan Indonesia. Meanwhile, verification research was conducted to examine the effect of financial literacy on business sustainability with financial behavior as a mediating variable (intervening).

The subjects of this study were young entrepreneurs from among students at the Universitas Pendidikan Indonesia. Therefore, the population in this study were students of the Universitas Pendidikan Indonesia. The sampling method in this study used non-probability sampling with purposive sampling technique. The sample in this study must have the following criteria: active students of the Universitas Pendidikan Indonesia who are entrepreneurs and are members of the Himpunan Pengusaha Muda Indonesia (HIPMI) PT UPI, so the number of samples that can be collected in this study is 96 respondents.

The data used in this study is primary data. Primary data was collected using a questionnaire in the form of a checklist containing closed statements which were distributed via google form to respondents. The questionnaire contains statements covering data on financial literacy, financial behavior and business sustainability. The collected data is then given a score of 1 to 5 based on the Likert Scale/Rating Scale to indicate the level of implementation.

This study uses data analysis that is adapted to the research pattern and the variables studied. The model used in this study is a causality model and to test the hypotheses proposed in this study, the analytical technique used is SEM Analysis (Structural Equation Modeling) which is operated with the help of SmartPLS 4.0 software. SEM is a multivariate statistical technique which is a combination of factor analysis and regression analysis (correlation), which aims to examine the relationships between variables that exist in a model, both between indicators and their constructs, or relationships between constructs (Santoso, 2007). Quantitative method is a method that uses a sampling system from a population and uses a structured questionnaire as a data collection tool. This approach is used to determine the effect of financial literacy on business sustainability with financial behavior as a mediating variable (intervening).

Applicatively, the effect of X on Y through the mediator M is represented statistically as the product of its constituent causal effects (the effect of X on M and the effect of M on Y). The following analysis model is presented as in the framework above:

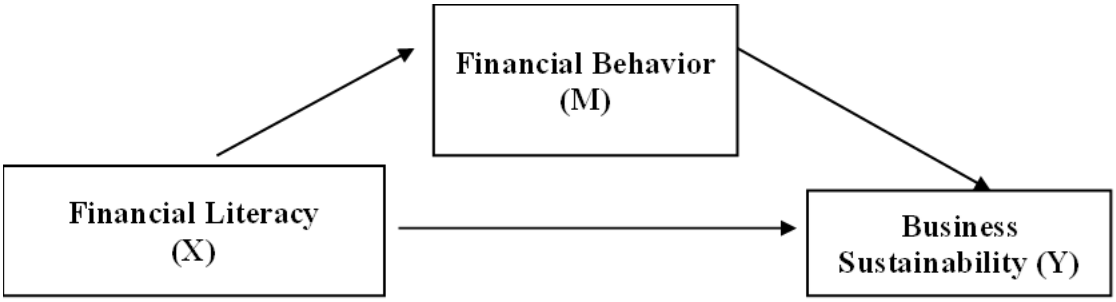

Figure 1. Research Model

The t-test is an analytical tool to test the significance of the influence between the X and Y variables, the X and M effects and the M and Y variables. Does the X variable really affect the M variable and whether the M variable has a significant effect on Y, as well as whether X has a direct influence on the Y variable without having to go through the M variable.

RESULTS AND DISCUSSION

Results

The following are the results of T-Statistics which are used to see whether the hypothesis is accepted or rejected.

Table 1. T-Statistics Results

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	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Literasi Keuangan (X) -> Business Sustainability (Y)	-0.043	-0.039	0.088	0.482	0.630
Literasi Keuangan (X) -> Perilaku Keuangan (M)	0.574	0.578	0.069	8.318	0.000
Perilaku Keuangan (M) -> Business Sustainability (Y)	0.664	0.671	0.089	7.428	0.000

Hypothesis #1 Financial Literacy (X) has a positive and significant effect on Business Sustainability (Y)

Table 1 above shows that the relationship between variable X (Financial Literacy) and variable Y (Business Sustainability) is not significant with a T-statistic of 0.482 (< 1.96) and P value of 0.630 (> 0.05). The original sample estimate value is negative, which is 0.043 which indicates that the direction of the relationship between X and Y is negative. Thus the H1 hypothesis in this study which states that 'Financial Literacy' has a positive and significant effect on "Business Sustainability" is rejected. This can be caused because variable X (Financial Literacy) has an **indirect effect** on variable Y (Business Sustainability) as described in the following table.

Table 2. Indirect Effects

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
Literasi Keuangan (X) -> Business Sustainability (Y)	0.381	0.388	0.074	5.131	0.000

Hypothesis #2 Financial Literacy (X) has a positive and significant effect on Financial Behavior (M)

Table 1 above shows that the relationship between variable X (Financial Literacy) and variable M (Financial Behavior) is significant with a T-statistic of 8.318 (> 1.96). The original sample estimate value is positive, which is 0.574 which indicates that the direction of the relationship between X and Y is positive. Thus the hypothesis H2 in this study which states that the variable "Financial Literacy" has a positive and significant effect on the variable "Financial Behavior" is accepted.

Hypothesis #3 Financial Behavior (M) has a positive and significant effect on Business Sustainability (Y)

Table 1 above shows that the relationship between variable M (Financial Behavior) and variable Y (Business Sustainability) is significant with a T-statistic of 7,428 (> 1.96). The original sample estimate value is positive, which is 0.664 which indicates that the direction of the relationship between X and Y is positive. Thus the hypothesis H3 in this study is accepted where "Financial Behavior (M)" becomes the intervening variable (mediation) between the variable "Financial Literacy (X) and the variable "Business Sustainability (Y)". The type of mediation that occurs is "Perfect Mediation" where the X-Y variable relationship is not significant, but the X-M-Y variable relationship is significant.

Then, to see the magnitude of the effect of each variable X on Y, it can be seen in the following results.

Table 3. Path Coefficient of Research Model

	Business Sustainability (Y)	Literasi Keuangan (X)	Perilaku Keuangan (M)
Business Sustainability (Y)			
Literasi Keuangan (X)	0.357		
Perilaku Keuangan (M)	0.754	0.596	

From the results above, it can be concluded that the variable M has a fairly strong influence on Y. Likewise, the variable X on M. However, the variable X has a weak influence on the variable Y.

After the estimated model meets the OuterModel criteria, the next step is to test the structural model (Inner model). The coefficient of determination (R Square) is a way to assess how much an endogenous construct can be explained by an exogenous construct. The value of the coefficient of determination (R Square) is expected to be between 0 and 1. Here is the R-Square value in the construct:

Table 4. R Square Value of Research Model

	R-square	R-square adjusted
Business Sustainability (Y)	0.410	0.397
Perilaku Keuangan (M)	0.329	0.322

Table 4. above gives an R-square value of 0.410 for the Y construct (Business Sustainability) which means that the X variable (Financial Literacy) is able to explain the Y (Business Sustainability) variance of 41%. Then, the value is 0.33 for the M construct (Financial Behavior) which means that the X variable (Financial Literacy) is able to explain the M variance (Financial Behavior) of 33%. Both values show moderate results (Chin, 1998 in Ghozali and Latan, 2015).

Discussion

Hypothesis 1 shows the result that Financial Literacy has no significant effect on Business Sustainability. This is inversely proportional to the results of the research of Ye, J. & Kulathunga, K.M.M.C.B. (2019) which found that financial literacy affects the sustainability of MSMEs in Sri Lanka. The absence of a significant influence between Financial Literacy and Business Sustainability is most likely due to the X variable (Financial Literacy) having an indirect effect on the Y variable (Business Sustainability).

Hypothesis 2 shows the result that Financial Literacy has a positive and significant effect on Financial Behavior. The results of the research by Stolper & Walter (2017) show that financial literacy has a close relationship with individual financial behavior. Low financial literacy will have an impact on decision making in everyday life. Making wrong decisions will end up in poor and ineffective financial management so that it can lead to the behavior of people who are vulnerable to financial crises and have the potential to experience losses in the financial sector (Ningtyas, 2019). On the other hand, individuals with high financial literacy enable them to better cope with financial crises in a more appropriate way.

Financial literacy is very helpful in making choices and taking effective steps to improve financial well-being (Lusardi & Mitchell, 2011). Previous research stated that literate individuals will be able to do things well such as: budgeting, saving, controlling spending (Perry & Morris, 2005); manage debt (Lusardi & Tufano, 2015); participate in the capital market (Van Rooij et.al., 2011; Lusardi & Mitchell, 2011; Jappelli & Padula, 2013; Yoong, 2011); planning for retirement (Lusardi & Mitchell, 2007; Lusardi & Mitchell, 2008); and the most important thing is to successfully accumulate wealth (Stango & Zinman, 2009).

It can be said that with an individual's understanding of good financial knowledge, the better his financial behavior will be. Financial behavior is associated with financial management behavior, namely a person's ability to plan, check, manage, control and save the money they have (Sabri et al., 2015).

Hypothesis 3 shows the results that Financial Behavior has a positive and significant effect on Business Sustainability. This is in line with research conducted by Ningtyas & Andarsari (2021) and Puspitaningtyas (2017) which states that there is a unidirectional relationship between financial literacy, financial behavior and business sustainability. Financial Behavior (M) becomes the intervening variable (mediation) between the Financial Literacy variable (X) and the Business Sustainability variable (Y). The type of mediation that occurs is "Perfect Mediation" where the X-Y variable relationship is not significant, but the X-M-Y variable relationship is significant.

Business decisions taken by business actors today will have an important impact on the financial security of their business in the future. In addition, to continue to run their business in the future, they need to develop effective financial planning where it requires an understanding of financial knowledge (Lusardi & Mitchell, 2008; Puspitaningtyas, 2017). Business financial management that is not based on standards will tend to run ineffectively. Without this, business decision making becomes ineffective so that it will have an impact on the continuity of a business (business sustainability) (Puspitaningtyas, 2017).

The research presented by Aribawa (2016) shows that it is important for MSMEs to have good financial literacy so that they can also implement wise financial behavior. Lack of financial knowledge will have an impact on the inability to manage assets, allocate funds and choose funding sources. This can result in people who are vulnerable to financial crises for individuals and will threaten business continuity for business actors (Aribawa, 2016).

There are many studies that show that financial literacy is positively related to company performance (Ye, J. & Kulathunga, K.M.M.C.B., 2019). Financially literate companies have better insight into the strategic financial aspects of the company. Wise (2013) shows that financial literacy is important for the survival of MSMEs in both developed and developing countries. Low financial literacy causes poor people to practice financial management and causes errors in the company's financial management (Lusardi & Mitchell, 2014).

Huston (2010) shows that financial literacy is needed to cope with rapid economic changes. Financial literacy has become one of the most important driving forces in organizational decision making (Allgood & Walstad, 2016) and long-term strategic financial planning (Lusardi & Mitchell, 2014). Financially literate companies are more likely to implement good financial management practices that will drive their development and sustainability. So, financial literacy is considered to have a positive effect on business sustainability.

CONCLUSION

Conclusions from the results of this study include:

1. Young entrepreneurs from Indonesian Education University students tend to have good levels of financial literacy, financial behavior and business sustainability.
2. Financial Literacy has no significant effect on Business Sustainability. The absence of a significant influence between Financial Literacy and Business Sustainability is most likely due to the variable X (Financial Literacy) having an indirect effect on variable Y (Business Sustainability).
3. Financial Literacy has a positive and significant effect on Financial Behavior. Financial literacy will have an impact on decision making in everyday life. Making wrong decisions will end up in poor and ineffective financial management, which can lead to people's behavior that is vulnerable to financial crises and has the potential to suffer losses in the financial sector. On the other hand, individuals with high financial literacy enable them to better cope with financial crises in a more appropriate way.
4. Financial Behavior has a positive and significant effect on Business Sustainability. This shows that there is a unidirectional relationship between financial literacy, financial behavior and business sustainability. Financial Behavior (M) becomes the intervening variable (mediation) between the Financial Literacy variable (X) and the Business Sustainability variable (Y). The type of mediation that occurs is "Perfect Mediation" where the X-Y variable relationship is not significant, but the X-M-Y variable relationship is significant.

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