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Financial Literacy Effect on Behavioral Finance of SMEs in Province of Bali

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ABSTRACT
The purpose of this study was to analyze the effect of financial literacy variables on behavioral finance in the SMEs sector in Bali Province. This study is different from previous research that focused on factors affecting behavioral finance in capital market investors. The novelty lies in testing the behavioral finance variable in the SMEs sector with financial literacy as an exogenous variable. The population on this study was all SMEs that received the Bali Province SMEs Financing Access Improvement Activity Program in the 2019 fiscal year as many as 450 units spread across 9 regencies/cities throughout Bali Province. Samples were taken from each stratum based on the type of business and then proportionally taken in magnitude so that samples were obtained for research. Sampling was carried out through two stages. First, the respondents were from real sector SMEs. The second stage was the respondent have been registered as a taxpayer. The calculation model used the Slovin model. The calculation results showed that the number of samples was 211.76 or rounded to 212 samples. This research used a quantitative research design, which was based on the paradigm of positivism Based on the results of data processing. This study revealed that estimating structural model parameters showed the estimated value of financial literacy for behavioral finance of -0.692 and p value of 0.006. It means that value of the effect of financial literacy on the company's behavioral finance were negative and significant, it could be concluded that the hypothesis was accepted. These results showed that good financial literacy owned by SMEs owners in the financial sector was useful to make the right decisions for their companies. SMEs owners or managers were closely related to complex and strategic financial decision making, related to successfully achieving business goals and sustainability. Further research may add other proxies in measuring Balanced Scorecard performance, and other contingencies such as: the character and attitude of defense mechanisms.

***Keywords**: Behavioral Finance, Financial Literacy, SMEs.*

1. INTRODUCTION

The huge potential is becoming an increasingly important position for SMEs in the national economy so that it becomes the main concern of policy makers. The development of SMEs in Indonesia is currently carried out by the Office of the State Minister of Cooperatives and Small and Medium Enterprises (Ministry of State KUKM), the Ministry of Finance, the Ministry of Finance and BI also carry out the function of developing

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SMEs by preparing a Master Plan for the Development of Small and Medium Industries. Likewise, the Ministry of Finance through the Decree of the Minister of Finance (Menkeu) No. 316 / KMK.016 / 1994 requires SOEs to set aside 1-5% of company profits for the Development of Small Businesses and Cooperatives (PUKK).

SMEs in Bali Province, which are dominated by souvenir crafts, various types of Balinese food and clothing such as endek fabrics, batik to kebaya fabrics, are spread throughout all city districts in Bali. The contribution of SMEs growth should have a direct impact on regional gross domestic product. Based on data from BPS Bali Province, in 2018 the total regional GDP of Bali Province amounted to Rp. 234 billion. The following is a comparison of the number of SMEs and Bali's regional GDP in 2018.

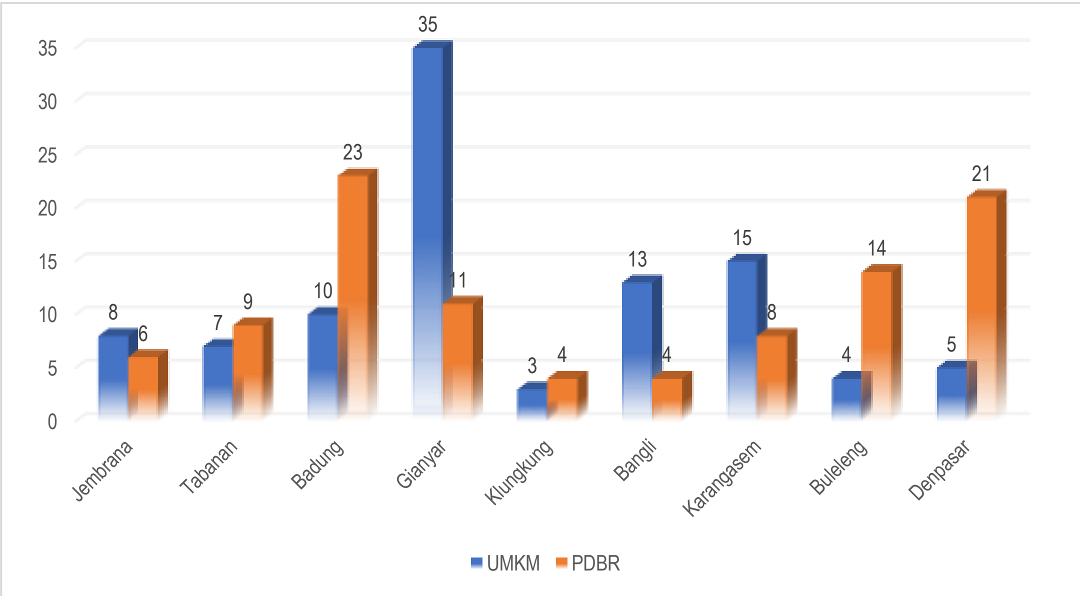

Figure 1 : Comparison of the Number of SMEs and Regional GDP per Regency in Bali Province in 2018

Based on Figure 1.1, it can be seen that in 2018, Gianyar regency had the largest number of SMEs, namely 91,511 units or 35% of the total SMEs in Bali with a regional GDP of only Rp. 26,511 billion or 11% of Bali's total GDPR. When compared to Badung Regency which has SMEs of 26,863 units or 10% of the total SMEs in Bali but is able to generate a GDPR of Rp.57,444 billion or 23% of Bali's total GDPR. Likewise with Denpasar City with the number of SMEs amounting to 11,515 units or 5% of the total SMEs in Bali with a GDPR level of Rp.51,440 billion or 21% of the total GDPR of Bali Province. This presentation stated that Badung Regency and Denpasar City were able to produce regional GDP much larger than Gianyar Regency which has the largest SMEs in Bali Province. So it can be stated that the number of SMEs in an area is not always directly proportional to the level of productivity of the local community. The quality of

SMEs is largely determined by competitive advantage by utilizing resources that focus on developing or obtaining valuable resources and abilities. The integration process between financial resources and knowledge and experience will determine the quality of financial decision making in the SMEs sector.

Financial decision making is based on behavioral finance that considers how psychological traits affect individuals or groups acting as investors, analysts and managers (Brown and Reilly, 2009). Behavioral finance is the study of cognitive and emotional errors in financial decisions (Nofsinger and Hirschey, 2008). Behavioral finance is closely related to a person's ability or knowledge in treating, managing and using the financial resources available to him such as creating and saving budgets, and controlling expenses, investing and paying obligations on time. Financial literacy is an indicator of financial capability, which is the level of understanding of financial products and services so that it becomes the right tool for conducting elections (van Rooji et al., 2011).

Several studies have shown that financial literacy has a significant influence on financial behavior, for effective management of financial resources to achieve well-being, each individual requires basic financial knowledge and skills. Several studies have shown the results of a person's financial literacy level and a person's perception of financial literacy results in a person's level of overconfidence. A high level of perception but with low financial literacy will make a person overconfident, this excessive self-confidence will make mistakes in decision making (Volpe, 1998; Camerer and Lovallo, 1999; Barber and Odean, 2001; Parker and Yoong, 2009; Robb and James III, 2009 in Nababan and Sadalia, 2012; Lachance and Tang, 2012; Allgood & Walstad, 2012).

Different results were obtained through research from Szykman (2005) concluded that the level of financial literacy and the level of risk and self-confidence have a very varied influence so that it cannot be inferred because it is influenced by the characteristics of the individual. Other studies have concluded that the level of financial literacy has no effect on a person's financial behavior (Dwiastanti, 2017).

The theoretical and empirical gaps of previous research form the basis for developing a more comprehensive theoretical model of behavioral finance and built on widely developed theories from various libraries. The previous research focused on factors affecting behavioral finance in capital market investors. In this study, the novelty lies in testing the behavioral finance variable in SMEs sector with financial literacy as an exogenous variable.

2. LITERATURE REVIEW

This research was a causality research developed based on the theories underlying this research, while the theories that are referenced in this study are behavioral finance from Kahneman and Tversky (1979), Nofsinger and Hirschey (2008), Robison, et al (2010) is a study of cognitive and emotional errors in financial decisions, and is divided into two basic theories, namely Heuristics and Prospect Theory. Both theories believe that investors are not always rational and they are prone to being influenced in market conditions that are not always efficient. Investor decision-making is irrational making so it is very difficult to separate the emotional and mental factors involved in the decision-making

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process through which investors go through by collecting evaluations of relevant information. This means that behavioral finance is the study of cognitive and emotional errors in financial decisions. The main method of financial behavior is that investors are not always rational and they are prone to be influenced in market conditions that are not always efficient. Then emotional principles are needed for the development of financial decision making.

Behavioral Finance Definition, Types and approach

Kahneman and Tversky (1979) illustrate that capital market investors usually try to avoid taking risks when investors make a profit, however investors may choose to take risks when investors lose a certain amount of stock. Financial behavior has a primary focus in studying the influence of cognitive and psychological biases in the investment decision-making process.

Barber and Odean (1999) stated financial behavior tolerates the assumptions of traditional financial economics by incorporating something observable, systematic and highly humane from rationality into the standard model of financial markets. The tendency of humans to become overconfident overwhelms the first bias in investors, and the human desire to avoid mistakes becomes the second driver.

Guzavicius, et al (2014) stated financial behavior studies the effects of social, cognitive, and emotional factors on individual and institutional economic decisions and consequences for benefits and resource allocation. Financial behavior does not take the characteristics of decision-makers as fixed, the focus is on unbalanced processes, the actions of diverse agents with limited rationality who can learn from experience and interaction. Based on this definition, financial behavior is a new branch of theory that is a combination of psychological and social and emotional theories in individual and institutional economic actors in financial decision making. Classical financial science assumes that financial decision makers will act rationally in decision-making. However in the huge literature of psychology documenting that people make systematic mistakes in the way they think suppose they always make decisions easier (heuristics), overconfidence, decisions based on current experience (representativeness), separate decisions that must be combined (mental accounting), misrepresenting individual problems (framing), tend to be slow to take changes (conservatism), and their preferences can also make distortions when they avoid realizing losses and strive to realize profits (disposition of securities).

Table. 1 Bias, Effects to Investors and Consequences

No	Bias	Effects to Investors	Consequences
1	*Overconfidence*	Too much trading, too much risk, failure to diversify.	Too much commission for the broker and taxes, the possibility of large losses
2	*Representativeness*	The tendency to associate new events with once known events and make decisions.	Buying overpriced stocks
3	*Herding*	Lack of confidence in individualism in decision-making	Too much information from the "herd" will result in buble information
4	*Anchoring*	The tendency to assume	Missed investment

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		logically irrelevant price levels is equally important in the decision-making process.	opportunities, or poor entry time into the market
5	*Cognitive Dissonance*	Ignore new information that conflicts with known beliefs and decisions.	Reduces the ability to make rational and fair investment decisions.
6	*Regret Aversion*	Selling too fast when profitable, holding too long when losing	Reduction in the level of profit.
7	*Gamblers Fallacy*	Take too many risks after winning lucky.	The chance of a big loss.
8	*Mental Accounting*	Low or no diversification	Irrational and negative effects on profits
9	*Hindsight*	The tendency to perceive that an event must have occurred, even if it is not based on logical reasoning.	Simplification of wrong decision-making

Source: author's summary (2023)

Financial Literacy Definition and Dimention

Financial literacy has been recognized worldwide as an element of stability and significant economic and financial growth, which is reflected in the recent approval of the High-Level Principles on National Strategy for Financial Education by the OECD, ratified through the G20 Meeting (OECD, 2013). However, there are some gaps in key aspects involving financial literacy. First is the fact that the term financial literacy often occurs used as a synonym for financial education or financial knowledge, since these two constructs are conceptually different and using them as synonyms can cause problems, since financial literacy goes beyond financial education. Huston (2010) argues that financial literacy has two dimensions: understanding, which represents personal financial knowledge or financial education, and its use, that is, the personal application of such knowledge in financial management.

Organisation for Economic Dooperation and Development – OECD (2012) states A combination of awareness, knowledge, skills, attitudes, and behaviors necessary to make sound financial decisions and ultimately achieve the financial well-being of the individual.

Indonesia's National Financial Literacy Strategy (2013) states s series of processes or activities to increase knowledge, confidence (convidence) and skills (skills) of consumers and the wider community so that they are able to manage finances better. Financial Services Authority of the Republic of Indonesia (2014) states knowledge, skills and beliefs that influence attitudes and behaviors to improve the quality of decision makers and financial management in order to achieve prosperity. Based on several definitions from world literacy experts and institutions, it can be concluded that financial literacy includes a combination of three dimensions, namely financial knowledge, financial behavior, and financial attitudes to improve the quality of financial decision making to achieve prosperity.

The dimension of financial knowledge is a specific type of capital for each individual human being acquired throughout the life cycle, by studying subjects that affect the ability to effectively manage income, expenses, and savings (Delavande et al., 2008).

Financial behavior is a key element of financial literacy, and it is undoubtedly the most important (OECD, 2013). According to Atkinson and Messy (2012), positive outcomes of financial literacy are driven by behaviors such as planning costs and establishing financial security, on the other hand, certain behaviors, such as excessive use of credit, can reduce financial well-being. In turn, financial attitudes are formed through economics and non-economic beliefs held by decision makers of certain behaviors and therefore, become a key factor in the process of personal decision-making (Ajzen, 1991)

The Relationship between Financial Literacy and Financial Behavior

Financial literacy is the ability to read, analyze, manage, and write about personal financial conditions that affect material well-being. It includes the ability to distinguish financial options without any sense of discomfort, plan for the future, and respond competently to life events that affect financial decisions on a daily basis (Novo, 2012).

Houston (2010) proposes a model that includes the relationship between financial literacy, knowledge, education, behavior and financial well-being. In this model, inputs to financial literacy are human capital and financial education. Other influences such as demographics, culture, and family influence are associated with financial behavior.

Financial literacy is a component of human capital that can be used in financial activities (financial behavior) to improve the well-being of life. Other influences such as behavioral/cognitive biases on self-control issues, family, friends, economics, society and institutions can affect financial behavior and financial well-being. A person who is financially literate (i.e., has the knowledge and ability to apply knowledge) does not exhibit behaviors that are influenced by other factors (Huston, 2010).

Education about finance is an input used to improve the quality of one's human capital, especially financial knowledge and applications (financial literacy). A well-designed and adequate financial literacy instrument is an indicator of how well financial education is at raising the human capital necessary to behave appropriately to improve well-being (Huston, 2010). Lack of financial knowledge has been linked to behaviors that lead to financial mistakes such as excessive lending, high interest rate mortgages, and limited savings and investments (Henager and Cude, 2016).

Fast-growing financial instruments provide easier access to financial services, but the risks that arise are also more. Financial literacy has become a key life skill for individuals as well as micro and small businesses. Financial education can help strengthen financial literacy by improving financial knowledge, skills and attitudes (Grifoni and Messy, 2012).

Good financial literacy entrepreneurs are able to use skills in the field of finance in making various decisions that are right for their company (Muraga and John, 2015). Business owners/managers are strongly associated with complex and strategic financial decision-making related to successfully achieving business goals and sustainability (Draxler et al., 2014).

Previous research by Dahmen and Rodríguez (2014) found that there is a meaningful relationship between financial literacy and performance experienced by entrepreneurs. This relationship is logically applied to companies that with good financial literacy will be able to strategically identify and respond to changes in the business, economic and financial climate so that the decisions taken will create innovative and well-directed solutions for improving business performance and sustainability.

3. DATA AND RESEARCH TECHNIQUE ANALISYS

The research instrument used to collect data is a questionnaire given to SMEs owners/management that has been prepared in advance. Respondents were asked to provide responses to question items.

Tabel 2. Types of Research Questionnaires

No	Research Variables	Questionnaire Reference Source	Questionnaire Assessment Scale
1.	Financial Literacy	Chen and Volpe (1998)	Likert Scale and Guttman Scale
2.	*Behavioral Finance*	Taylor et al (2006)	Likert Scale

Data source: researcher summary (2019)

The population in this study is all SMEs that received the Bali Province SMEs Financing Access Improvement Activity Program in the 2019 fiscal year as many as 450 units spread across 9 regencies/cities throughout Bali Province. The sampling technique in this study is the Proportionate Stratified Random Sampling method. This technique is commonly used in heterogeneous populations (Sugiyono, 2008). Samples are taken from each strata based on the type of business and then proportionally taken in magnitude so that samples are obtained for research. Sampling is carried out through two stages. First, the respondents selected were from real sector SMEs. The second stage is that the selected respondent is already registered as a taxpayer. The calculation model uses the Slovin model. The calculation results showed that the number of samples was 211.76 or rounded to 212 samples.

Before collecting the overall data, the questionnaire is first tested on the owner or leader of the SMEs company selected as a respoden to ensure that they have correctly understood the statements in the questionnaire.

Descriptive analysis is used to determine the characteristics of respondents and the description of respondents to the indicators of each research variable. The description of each indicator is expressed in frequency values and average values. Furthermore, an overview of respondents' perceptions of indicators in forming or reflecting variables was obtained. Descriptive analysis is also aimed at describing the tendency of respondents' responses to statement items relating to research variables. Inferential analysis was used to test the hypotheses formulated in this study.

4. RESULT AND DISCUSSION

Description of Research Variables

This research examined the role of financial literacy in influencing the behavioral finance of SMEs in Bali province. Each variable is described as follows:

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Variable Literacy Level of SMEs in Bali Province

Financial Literacy is a set of abilities and skills of business actors in making effective decisions with all financial resources owned by SMEs actors in Bali Province. The variable level of financial literacy in this study was measured by a questionnaire adopted from Chen and Volpe (1998) which consisted of 4 (four) dimensions, namely Basic Knowledge, Ability to Track Business Processes, Financial Management and Budgeting, and Risk Management. The total indicators of the four dimensions are 25 (twenty-five) statements that must be answered by the respondent, then the answer is calculated correctly and then divided by all questions then multiplied by one hundred percent, and then the results of the answers are classified into three categories.

Categorizing financial literacy according to Chen and Volpe (1998), the level of financial literacy is classified into three categories, namely (< 60 percent) which means that individuals have low financial knowledge, where the low category indicates that respondents are only able to answer questions correctly as many as less than nine (< 9) questions from all questions asked. (60 percent-80 percent) which means that the individual has moderate financial knowledge where the respondent is able to answer as many as (9-12) questions correctly and (> 80 percent) which means the individual has high financial knowledge where the respondent is able to answer more than (> 12) questions correctly.

Table 3. Financial Literacy Level of SMEs in Bali Province

Category	Jumlah	Percentage
Low (<60 pe**rcentage**)	27	16
Medium (60-80 pe**rcentage**)	108	62
Hight (>80 pe**rcentage**)	38	22
	212	100

Source: Primary Data, processed (2020)

Based on the results of primary data processing contained in Table 3, it can be seen that 62 percent of SMEs actors in Bali Province have a moderate level of financial literacy, 22 percent of high literacy rate and 16 percent are included in the low category.

Behavioral Finance Variables of SMEs in Bali Province

Behavioral Finance is a psychological and social and emotional factor for SMEs actors in Bali Province in decision making. Psychological factors have the potential to make systematic mistakes in the way of thinking as well as making financial decisions. The assessment of Behavioral Finance variables in this study used a Likert-scale questionnaire adopted from Taylor et, al (2006). Varaiabel Behavioral Finance in this study consists of 9 dimensions consisting of Overconfidence, Repsentativeness, Herding, Anchoring, Cognitive Dissonance, Regret Aversion, Gambler's Fallace, Mental Accounting, Hindsight. The total question indicators of the 9 (nine) dimensions are 21 questions.

Tabel 4. Average Score of Behavioral Finance Variable Dimensions and Indicators

Behavioral Finance Dimention	Information	
	Average Score	Criterion

1. Average value of dimensions *Overconfidence*	3,34	Sufficient
2. Average value of dimensions *Repsentativeness*	3,50	Agree
3. Average value of dimensions *Herding*	3,55	Agree
4. Average value of dimensions *Anchoring*	3,39	Sufficient
5. Average value of dimensions *Cognitive Dissonance*	3,56	Agree
6. Average value of dimensions *Cognitive Dissonance*	3,26	Sufficient
7. Average value of dimensions *Gamblre's Fallace*	3,52	Sufficient
8. Average value of dimensions *Mental Accounting*	3,66	Agree
9. Average value of dimensions *Hindsight*	3,13	Sufficient
Average value of the entire dimension *Behavioral Finance.*	3,41	Sufficient

Source: Primary Data, processed (2023)

Based on Table 4, it shows that the average score of respondents for Behavioral Finance of 3.41 is included in the Sufficient category, meaning that SMEs actors in Bali Province have an attitude that is quite influenced by biased financial behavior (behavioral finance bias) towards all their business decisions. The results of the respondents' interviews found information that SMEs actors have sufficient confidence in assessing their business performance, confident in the ability to predict business performance, courageous in determining the level of risk taken, a high tolerance attitude towards losses even though faced with conditions of limited capital, business expansion carried out based on trends that occurred at that time, had high confidence at the time when business conditions experienced losses but they still believe in continuing the business in the hope that there will be changes in macroeconomic conditions that will change the business cycle of their business. All forms of these attitudes and beliefs are munucul because the current business is a business field that has been managed for many years so that SMEs players already know the business cycle of their business and this gives rise to confidence to measure their performance in the future.

Limited availability of performance report data owned by SMEs, limiting the ability to predict future performance which is only based on the instincts and experiences of previous periods and not sourced from a detailed decision-making process and based on the financial performance data of the SMEs concerned. These findings are in line with the results of research from Nofsinger (2001) which found that traders who carry out a high frequency of trading have a sense of confidence that causes exceeding the limits of their knowledge, underestimating risks and enlarging their ability to control an event.

Hypothesis Testing Financial literacy has a effect on Behavioral Finance

Based on the results of data processing, it can be seen that the model in this study has an AVE value above 0.50, so the model in this study has a good correlation between constructs. The model in this study has a Cronbach alpha value and composite reliability above 0.70, so the group of indicators that measure the variables in this study has good composite reliability.

The hypothesis is tested by a t-test. If the test obtained a p-value of 0.05 ($\alpha = 5\%$), then the test is significant.

Table 5 Hypothesis Testing Result

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
Financial Literacy (X) -> Behavioral Finance (Y)	-0.692	-0.580	0.249	2.777	0.006

Based on the results of data processing on table 5, it can be seen that the results of estimating structural model parameters show the estimated value of financial literacy for behavioral finance of -0.692; p value of 0.006; Based on the original sample coefficient that measures the effect of financial literacy on the company's behavioral finance tested negative and significant, it can be concluded that the hypothesis is accepted.

Based on the results of research that has been tested, it was found that the influence of financial literacy on behavioral finance tested negative and significant. The results of this study are in line with previous studies that found that a person who is financially literate (that is, has knowledge and the ability to apply knowledge) does not show behavior that is affected by other factors (Huston, 2010). Lack of financial knowledge has been linked to behaviors that lead to financial mistakes such as excessive lending, high interest rate mortgages, and limited savings and investments (Henager and Cude, 2016).

These results show that good financial literacy owned by SMEs owners in the financial sector is useful in making various decisions that are right for their companies. SMEs owners/managers are closely related to complex and strategic financial decision making related to successfully achieving business goals and sustainability. This relationship is logically applied to companies that with good financial literacy will be able to strategically identify and respond to changes in the business, economic and financial climate so that the decisions taken will create innovative and well-directed solutions for improving business performance and sustainability.

Financial literacy for small entrepreneurs, in addition to being able to read and understand fundamental financial statements, also has the ability to interpret numbers, to make judgments based on information and to make effective decisions about the use and management of money (Brown et al., 2006). The latest approach states that financial literacy as the ability to understand and use business financial statements to generate key financial ratios for evaluating and managing a business (Pearl and Eileen, 2014).

Educational programs can improve the financial literacy of entrepreneurs and the success of small businesses, by establishing strong relationships and removing barriers to the relationship between inadequate financial literacy and the difficulties experienced by entrepreneurs (Brown et al., 2006; Pearl and Eileen, 2014).

Behavioral finance is closely related to a person's ability or knowledge in treating, managing and using the financial resources available to him such as creating and saving budgets, and controlling expenses, investing and paying obligations on time. Financial literacy is an indicator of financial capability, which is the level of understanding of financial products and services so that it becomes the right tool for conducting elections. There is a tendency that when SMEs actors have a good level of literacy will have the potential to cause excessive self-confidence, this finding is also in line with a study conducted by Couto (2013) on entrepreneurship and financial literacy levels which found that the level of financial literacy in the research sample was stated to be quite good, namely 66% of the sample. A good level of literature increases the sense of self-confidence of entrepreneurship.

5. CONCLUSION

Based on the research findings and analysis of the research results, it can be concluded as follows financial literacy has a negative and significant effect on behavioral finance, meaning that there is an increase in financial literacy as measured by Basic Knowledge, Ability to Track Business Processes, Financial Management and Budgeting, and Risk Management can reduce Behavioral Finance as measured by Overconfidence, Repsentativeness, Herding, Anchoring, Cognitive Dissonance, Regret Aversion, Gambler's Fallace, Mental Accounting, Hindsight.

The suggestion from the results of this study is to improve the coaching program from the psychological side through the provision of counseling and management consultation which has also been implemented by the Bali Provincial Cooperatives and SMEs Office through the Cooperative Training Center and PLUT-UMKM (Integrated Business Service Center for Cooperatives and Micro, Small, and Medium Enterprises) of Bali Province through the empowerment of SMEs clinics in each Regency.

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