

# Increase of Financial Literacy and Entrepreneurship Motivation for Micro, Small, and Medium Enterprises Through Family Education, Formal Education and Social Environment

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## Abstract

**Abstract** – Everyone has their own financial goals. In order to reach those goals, financial preparation is needed. Financial preparation moreover should be possessed by micro, small, and medium enterprises due to their uncertain income, beside of they should pay for labor expense. In order to prepare the financial, they need sufficient financial literacy so that they can plan the financial properly including choose appropriate investment strategy that is fitted with the personal risk profile. The financial challenge for micro, small, and medium entrepreneurs is because they have greater financial risk due to unstable income. Beside that, entrepreneurs also have temptation of consumptive lifestyle. Consumptive behavior is a common problem in cities. Various facilities available on big cities invite the citizens to spend their money for excessive purchasing. Consumptive behavior happened when a person spend his money to purchase nonproductive goods excessively only to satisfy short term desire. In order to protect themselves from consumptive lifestyle temptation, micro, small, and medium entrepreneurs should have sufficient financial literacy to realize their financial needs in the future. Moreover they have additional financial goal which is to develop their business. The purpose of this research is to discover the influence of family education, formal education in higher education and social environment on financial literacy of micro, small, and medium enterprises. Also to know whether those effects also influence entrepreneurship motivation. The sample used on this research is 300 micro, small, and medium entrepreneurs using purposive sampling method. The research applied multiple linear regression to identify the influence. The results showed that family education, formal, education, and social environment simultaneously and partially influence financial literacy and entrepreneurship motivation, and also financial literacy influence entrepreneurship motivation.

**Keywords:** financial literacy, entrepreneurship, and social environment

## 1. INTRODUCTION

Everyone has their own financial goals. In order to reach those goals, financial preparation is needed. Financial preparation moreover should be possessed by micro, small, and medium enterprises due to their uncertain income, beside of they should pay for labor expense. In order to prepare the financial, they need sufficient financial literacy so that they can plan the financial properly including choose appropriate investment strategy that is fitted with the personal risk profile.

The financial challenge for micro, small, and medium entrepreneurs is because they have greater financial risk due to unstable income. Beside that, entrepreneurs also have temptation of consumptive lifestyle. Consumptive behavior is a common problem in cities. Various facilities available on big cities invite the citizens to spend their money for excessive purchasing. Consumptive behavior happened when a person spend his money to purchase nonproductive goods excessively only to satisfy short term desire. In order to protect themselves from consumptive lifestyle temptation, micro, small, and medium entrepreneurs should have sufficient financial literacy to realize their financial needs in the future. Moreover they have additional financial goal which is to develop their business.

This research attempts to figure out the phenomenon of financial literacy among the micro, small, and medium entrepreneurs, specifically on factors which influences the financial literacy of micro, small, and medium entrepreneurs. Once those factors identified, then the strategy to increase financial literacy can be formulated. The strategy is implemented in form of the use of information technology, because the citizens are so excited with the information technology nowadays and it can be appropriate way to attract the micro, small, and medium entrepreneurs in order to increase their financial literacy.

Beside of proper financial literacy is needed, the other thing which is needed by the micro, small, and medium entrepreneurs are the entrepreneurship motivation. The entrepreneurship motivation is not directly appeared when someone becomes an entrepreneur. The entrepreneurs who do not have any entrepreneurship motivation will face problems to retain and develop their business. At the end they will be ended on financial problem. Because of that, this research also tried to figure out the phenomenon of entrepreneurship motivation and how to increase it, despite of financial literacy.

Early education is started since a person is raised on the family, so that the financial literacy actually is determined since on the family. Family which implemented a good financial management will be reflection for someone regarding financial knowledge. The financial understanding process is started from the smallest unit, which is family. It is supported by Widayati (2012), that parent's social and economy status and financial education on family influence to financial literacy. The condition also happened on entrepreneurship motivation. Aprianti (2012) stated that family education influence on entrepreneurship motivation significantly.

A person does not develop himself only from family, but specifically also being influenced by formal education on college and higher education. Through the formal education, people can realize how important personal finance and attempt to improve their financial literacy so that it can be utilized on daily life. According to Margaretha and Sari (2015), education level and income influence significantly on financial literacy. But, sexuality does not influence significantly. Also it is supported by Fadilla (2016) that accounting subject assessment influences the ability to manage finance. Second, it shows that the learning process on higher education influence on financial literacy. Also, on the entrepreneurship motivation. According to Jusmin (2012), formal education influence significantly on entrepreneurship motivation.

Beside family education and formal education, people interact with their social environment, through friends or work mate. The friendship environment also is expected to influence financial literacy level. According to Sukmawati (2016), the social support from friends influence positively to financial literacy. Also with the entrepreneurship motivation. Koranti (2013) stated that social environment influence on entrepreneurship motivation. At last, it is argued that there will be three environment variables which influence financial literacy and entrepreneurship motivation on micro, small, and medium enterprises, which are family, formal education, and social environment.

Financial literacy is important factor that should be possessed by micro, small, and medium enterprises, especially to avoid financial distress in the future. With good financial knowledge, it is expected that micro, small, and medium enterprises can implement good financial management in their life. Because of that, the detection of factors which influence financial literacy and entrepreneurship motivation is urgently needed, especially for financial need on the future which is full of uncertainty.

## **2. LITERATURE REVIEW**

### **2.1. FINANCIAL LITERACY**

According to Mason and Wilson (2000), financial literacy is ability to earn, understand, and evaluate relevant information in order to take financial decision. Chen and Volpe (1998) classify financial literacy into four aspects, which are knowledge regarding personal finance generally, knowledge regarding saving and loan, basic knowledge regarding insurance and its products, and last knowledge regarding investment. Gustman *et al.* (2012) define financial literacy into several aspects, including knowledge regarding property, financial asset, and pension. On the other hand, Widayati (2012) develop financial literacy indicators which are adjusted with prevailing condition in Indonesia into 15 indicators, which are: looking for career, understanding factors influence income, recognizing income source, explaining how to fulfill financial goals, understanding saving budget, understanding insurance, understanding risk return relationship, evaluating investment alternatives, analyzing influence of tax and inflation to investment, analyzing advantage and disadvantage of debt, recognizing debtor's right, describing how to fix debt's problem, understanding basic law of consumer protection on loan taking, composing financial report and understanding financial statement, including financial position, income statement, and cash flow.

### **2.2. ENTREPRENEURSHIP MOTIVATION**

According to Gate (2016), entrepreneurship is composite skill from several abilities, such as creativity, risk taking, and ability to combine all production factors. Entrepreneurship motivation is the best way to fight unemployment. According to Beck and Kunt (2004), the policy to create competition and entrepreneurship motivation is needed on micro, small, and medium enterprises.

### **2.3. FAMILY EDUCATION**

According to Eminyan (2001), education is started from the family. Family education is the beginning of all knowledge. It is the obligation of parents to raise and teach the children. According to Cude *et al.* (2006), parents have important role for financial education to their kids. It means that family education influence on financial

literacy. It is supported by Widayati (2012) stated that family education influence significantly on financial literacy. According to those previous researches, then this hypothesis formulated.

H<sub>1</sub> : There is significant influence of family education to financial literacy on micro, small, and medium enterprises.

According to Aprilianty (2012), family education influence significantly on entrepreneurship motivation. According to that research then this hypothesis formulated.

H<sub>4</sub> : There is significant influence of family education to entrepreneurship motivation on micro, small, and medium enterprises.

#### **2.4. LEARNING ON HIGHER EDUCATION**

According to Ansori *et al.* (2009), higher education has function of character building, not only cognitive education. Higher education is expected to perform learning process and give a balanced learning subject between cognitive, psychomotor, and affective for their students. Learning process on higher education is expected to contribute for financial literacy among the university students. According to Behrman *et al.* (2012), the financial literacy improvement can be performed by improve education quality.

Amaliyah and Witiastuti (2015) also stated conclusion that education level influence to financial literacy significantly. Margaretha and Sari (2015) also stated that education level influence to financial literacy significantly. They are also supported by Fadilla (2016) stated that student's score influence to financial literacy. The student's score itself is a part of student learning process as long as they are in higher education. According to those researches, then this hypothesis is formulated.

H<sub>2</sub>: There is significant influence of learning on higher education to financial literacy on micro, small, and medium enterprises.

According to Jusmin (2012), formal education influence to entrepreneurship motivation. According to that research, then this hypothesis is formulated.

H<sub>5</sub>: There is significant influence of learning on higher education to entrepreneurship motivation on micro, small, and medium enterprises.

#### **2.5. SOCIAL ENVIRONMENT**

According to Siska (2016), social environment is environment which consists of people. Social environment build friendship system which has significant role on character building. The role of social environment also have important contribution, especially for younger generation amid the trend of social media utilization as part of the effect of information technology. According to Sukmawati (2016), support from friends influence positively to financial literacy. Therefore, this hypothesis is formulated.

H<sub>3</sub>: There is significant influence of social environment to financial literacy on micro, small, and medium enterprises.

According to Koranti (2013), social environment influence significantly to entrepreneurship motivation. According to that research, then this hypothesis is formulated.

H<sub>6</sub>: There is significant influence of social environment to entrepreneurship motivation on micro, small, and medium enterprises.

#### **2.6. FINANCIAL LITERACY AND ENTREPRENEURSHIP**

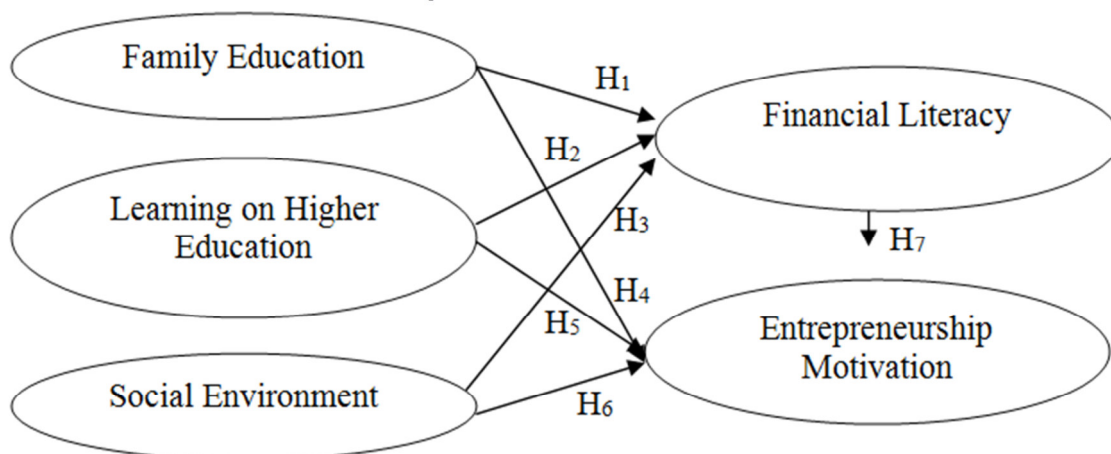
Susanti (2017) find that financial literacy influence significantly to entrepreneurship in order to understand financial management so that can maximize financial profit. According to that research, then this hypothesis is formulated.

H<sub>7</sub>: There is significant influence of financial literacy to entrepreneurship motivation on micro, small, and medium enterprises.

#### **2.7. THEORITICAL FRAMEWORK**

The two main points of this research are financial literacy and entrepreneurship motivation. Both of them are predicted to be influenced by family education, learning and social environment. So that, the theoretical framework is presented as follow.

Figure 1. Theoretical Framework



### 3. RESEARCH METHODS

#### 3.1. RESEARCH SAMPLES

The object of this research is micro, small, and medium enterprises. The research applied purposive sampling method to determine 300 respondents. The criteria for sampling are as follow.

- a. micro, small, and medium enterprises which are operated at least on 6 months.
- b. The owner has ever been on formal education, at least diploma from faculty of economic.

#### 3.2. DATA SOURCES

Data collection on this research will be performed using questionnaire. Questionnaire is used because this research needs primary data. The questionnaire will be distributed to micro, small, and medium enterprises which are located on Surabaya. Surabaya is chosen because big city has their own challenge, which is consumptive lifestyle.

#### 3.3. ANALYSIS METHOD

This research uses multiple linear regression as analysis method. Multiple linear regression is considered as an appropriate method because this research examines the influence of family education, learning on higher education, and social environment (considered as independent variables) to financial literacy and entrepreneurship motivation. In order to make sure that the regression model is appropriate, classical assumption test will be executed as follow.

Table 1. Types of Classical Assumption Test

No	Test	Method	Decision Making Criteria
1	Validity	Pearson corellation	<ul style="list-style-type: none"> <li>• sig. &lt; 0,05 ; item valid</li> <li>• sig. &gt; 0,05 ; item invalid</li> </ul>
2	Reliability	Cronbach alpha	<ul style="list-style-type: none"> <li>• cronbach alpha &gt; 0,6 ; item reliable</li> <li>• cronbach alpha &lt; 0,6 ; item not reliable</li> </ul>
3	Normality	Kolmogorov Smirnov	<ul style="list-style-type: none"> <li>• sig. &gt; 0,05 ; normal distribution data</li> <li>• sig. &lt; 0,05 ; abnormal distribution data</li> </ul>
4	Multicollinearity	VIF	<ul style="list-style-type: none"> <li>• VIF &lt; 10, no multicollinearity</li> <li>• VIF &gt; 10, multicollinearity exists</li> </ul>
5	Heterocedasticity	Glejser	<ul style="list-style-type: none"> <li>• sig. &lt; 0,05 ; heterocedasticity</li> <li>• sig. &gt; 0,05 ; homocedasticity</li> </ul>

Regression model for this research is on table 2 below.

Table 2. Regression Model

Hypotheses	Regression Model
H <sub>1</sub>	FIN_LIT = $\alpha + \beta$ . FAM_EDU+ $\epsilon$
H <sub>2</sub>	FIN_LIT = $\alpha + \beta$ . FORM_EDU + $\epsilon$
H <sub>3</sub>	FIN_LIT = $\alpha + \beta$ . SOC_ENV + $\epsilon$
H <sub>4</sub>	ENT_MOT = $\alpha + \beta$ . FAM_EDU+ $\epsilon$
H <sub>5</sub>	ENT_MOT = $\alpha + \beta$ . FORM_EDU + $\epsilon$
H <sub>6</sub>	ENT_MOT = $\alpha + \beta$ . SOC_ENV + $\epsilon$
H <sub>7</sub>	ENT_MOT = $\alpha + \beta$ . FIN_LIT + $\epsilon$

Those regression models were constructed based on research hypotheses. Since there were seven hypotheses, then seven regression models were formulated.

#### 4. RESULTS AND DISCUSSION

##### 4.1 DESCRIPTIVE STATISTICS

The result of descriptive statistics is as follow

Table 3. Descriptive statistics

Variables	Mean	Standard Deviation	N
Family Education	4.3643	.31317	150
Formal Education	4.3797	.31711	150
Social Environment	4.3907	.29689	150
Financial Literacy	4.4067	.30453	150
Entrepreneurship Motivation	4.3980	.33040	150

##### 4.2 CLASSICAL ASSUMPTION TEST

The result of classical assumption test is as follow

Table 4. The Result of Classical Assumption Test

Hypothesis	Types of Test	Result of Test	Definition
H <sub>1</sub> , H <sub>2</sub> , H <sub>3</sub>	Validity	0,000	Valid
	Reliability	0,680	Reliable
	Normality	0,136	Normal distribution model
	Multicollinearity	4,111	No multicollinearity
	Heterocedasticity	0,311	Homocedasticity
H <sub>4</sub> , H <sub>5</sub> , H <sub>6</sub>	Validity	0,000	Valid
	Reliability	0,680	Reliable
	Normality	0,164	Normal distribution model
	Multicollinearity	4,111	No multicollinearity
	Heterocedasticity	0,219	Homocedasticity
H <sub>7</sub>	Validity	0,000	Valid
	Reliability	0,680	Reliable
	Normality	0,135	Normal distribution model
	Multicollinearity	1,000	No multicollinearity
	Heterocedasticity	1,000	Homocedasticity

Based on result summary of classical assumption test, all regression models are feasible to be executed.

##### 4.3 MULTIPLE LINEAR REGRESSION ANALYSIS

The results of multiple linear regression are summarized below.

Table 5. Summary of multiple linear regression results

	Variables	Coeff.	t. sig.	Hypothesis	Research Result
H <sub>1</sub>	Family education to financial literacy	0,263	0,001	Positive and significant	Positive and significant (supported)
H <sub>2</sub>	Formal education to financial literacy	0,267	0,000	Positive and significant	Positive and significant (supported)
H <sub>3</sub>	Social environment to financial literacy	0,394	0,000	Positive and significant	Positive and significant (supported)
H <sub>4</sub>	Family education to entrepreneurship motivation	0,088	0,017	Positive and significant	Positive and significant (supported)
H <sub>5</sub>	Formal education to entrepreneurship motivation	0,249	0,009	Positive and significant	Positive and significant (supported)
H <sub>6</sub>	Social environment to entrepreneurship motivation	0,578	0,000	Positive and significant	Positive and significant (supported)
H <sub>7</sub>	Financial literacy to entrepreneurship motivation	0,986	0,000	Positive and significant	Positive and significant (supported)

Multiple linear regression analysis shows that all hypotheses were supported.

## 5. ANALYSIS AND DISCUSSION

### 5.1 FAMILY EDUCATION

Regression analysis showed that family education has positive and significant influence to financial literacy. This result is in line with Widayati (2012). Since, a person is raised starting from the family. The family itself has significant influence to a person's habit, including how he manages his financial condition. A family who teach good financial management to person's life can be a good experience to manage his own personal finance.

Family also plant several person's life values, such as honesty and thrifty. This value also influence the personal financial management style. So, basically managing personal finance started from family and parents are responsible to teach their kids how to manage finance in real life as early as possible. It is because teaching kids will be so much easier than teaching teenager or adult. Once thrifty value is planted on kids, the kids will respect on their money and they tend to not spend their money wastefully. Moreover, the challenge nowadays is very hard, especially there are so many temptation to be extravagant in spending and shopping. So, the family role is very important for personal finance, especially on financial literacy. The formal education will teach something practical and technical, but the family teaches the value and build character, which are more important than just practical or technical skill in finance.

### 5.2 LEARNING ON HIGHER EDUCATION

Regression analysis showed that formal education has positive and significant influence to financial literacy. This result is in line with Margaretha and Sari (2015). Learning on higher education make a person to have better understanding, including the financial. Financial knowledge that they have received on higher education then influence their financial literacy, so do for entrepreneurship motivation. Thus, people with a good learning on higher education will have better understanding on financial literacy and entrepreneurial motivation respectively.

It reveals that higher education plays important role on people's life stage. What they have learned on higher education will determine their attitude and manner in their future work life. So, the quality of higher education at general will determine people's quality. By that so, the improvement of higher education's quality is needed to ensure the quality of society. This is not only applied on financial literacy, but also on entrepreneurial motivation. So, if the government wishes to increase the entrepreneurial rate, the government should increase the quality of higher education. For the society, then determining good education should be considered carefully to ensure their future.

### 5.3 SOCIAL ENVIRONMENT

Regression analysis showed that social environment has positive and significant influence to financial literacy, also to entrepreneurship motivation. This result is in line with Sukmawati (2016). Social environment has a significant effect for a person, since they interact more on their social environment. The social environment could be friends or workmates. Human's nature as a social creature may explain this phenomenon. Since human has a basic need of social and interact with the others then the social will also influence a person's habit and attitude, also in financial literacy and entrepreneurial motivation.

So, if someone wants to increase their financial literacy and entrepreneurial motivation, they should be more selective on their social environment and determining their friendship. They can join business community or entrepreneur community, not only to get a connection and network but also to build their own entrepreneurial motivation for themselves. So, creating a positive and supported social environment are mandatory to increase financial literacy and entrepreneurial motivation.

#### 5.4 FINANCIAL LITERACY AND ENTREPRENEURSHIP

Regression analysis showed that financial literacy has positive and significant influence to entrepreneurship motivation. This result is in line with Susanti (2017). This result can be accepted rationally, since financial is one of the most important elements in business, beside marketing, operational, and human resources. When entrepreneur possess a good financial literacy, the confidence is also increased. This confidence then lead to better entrepreneurship motivation.

Entrepreneurship motivation will be hard to be built if entrepreneurs do not have business knowledge. Financial literacy is also element of business knowledge. Since business knowledge mostly is obtained from higher education, then the correlation can be accepted. Better financial literacy also can support entrepreneur's ability to manage the business well. For example, entrepreneur can not understand the financial condition of company or business if they even can not read the financial statement. So, increasing financial literacy is very important to increase entrepreneurship motivation, through the three factors mentioned before.

#### 6. CONCLUSION AND RECOMMENDATION

Conclusion of this research can be summarized as follow:

- family education has positive and significant influence to financial literacy
- formal education has positive and significant influence to financial literacy
- social environment has positive and significant influence to financial literacy
- financial literacy has positive and significant influence to entrepreneurship motivation

Since entrepreneurial motivation should be possessed by entrepreneurs then to increase it, entrepreneur is suggested to increase financial literacy. Increase of financial literacy can be developed through family education, formal education and social environment. The formal education will teach something practical and technical, but the family teaches the value and builds character. Social environment is also important, not by teaching something but more through friendship. So, creating these three positive environments are mandatory to increase financial literacy and entrepreneurial motivation.

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