



Evaluation of the effect of financial literacy (financial awareness, financial capability and financial behavior) on investment decisions in micro, small and medium enterprises (MSMEs) in indonesia

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ABSTRACT

Especially when it comes to Micro, Small, and Medium-Sized Enterprises (MSMEs) in Indonesia, financial literacy is crucial in guiding investment decisions. In this quantitative study, the relationship between MSME owners' and managers' investment decisions and the elements of financial literacy—financial knowledge, financial competence, and financial behavior—is examined. Data from the survey were analysed using Structural Equation Modelling with Partial Least Squares (SEM-PLS), and 164 respondents made up the sample. The results demonstrate that investing decisions are influenced by a combination of financial behaviour, financial competence, and financial awareness. Specifically, more informed, strategic, and cautious investing choices are linked to better financial literacy levels. The findings of this study demonstrate how crucial it is to raise financial literacy among Indonesia's MSMEs in order to foster competitiveness and economic growth. For practitioners, policymakers, and business owners who wish to equip MSMEs with the financial literacy and decision-making abilities necessary for wise investment choices, this study offers insightful information.

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1. INTRODUCTION

Financial literacy plays a crucial role in the performance and sustainability of Micro, Small, and Medium Enterprises (MSMEs). It encompasses several aspects, including access to finance, financial decision-making, and its impact on economic well-being. Financial literacy is a significant factor for MSMEs to gain access to finance, which can improve their business sustainability (Sufyati et al., 2022). A study found that financial literacy has the greatest influence on access to finance (Suseno et al., 2022). This is because financial literacy increases MSMEs' feasibility to obtain capital sources and makes

finance more affordable, thereby creating a healthy capital structure (Lestari et al., 2022). However, it's important to note that access to finance and financial risk attitude has not succeeded in moderating the relationship between financial literacy and the sustainability of MSMEs (Hamdana et al., 2021). This suggests that MSMEs may still not have a long-term business development plan and are accustomed to managing business finances in a conventional way (Ferli, 2023).

Financial literacy also impacts the financial decision-making process in MSMEs. The success or failure of MSMEs often depends on the skills, knowledge, and abilities acquired through financial education (Ferli, 2023; Lestari et al., 2022). A study found a high incidence in the use of finance and specialized software among managers who have a higher degree of education and have taken additional courses in finance (Romero Álvarez & Ramírez Montoya, 2018). This suggests that financial literacy can enhance the ability of MSME managers to make informed financial decisions, which can ultimately impact the performance and sustainability of their businesses.

Financial literacy has a positive and significant impact on the performance and sustainability of MSMEs¹⁴. It has been identified as a predictor of MSMEs' performance and sustainability (Rumini, 2020). This is because financial literacy equips MSMEs with the knowledge and skills needed to manage their finances effectively, which can lead to improved performance and sustainability. However, despite the importance of financial literacy, many MSMEs often experience delays in development, indicating that the potential of MSMEs has not been optimally realized.

MSMEs are crucial for economic development, job creation, and income distribution in many countries, including Indonesia. The MSME sector in Indonesia plays a significant role in employment and GDP. However, Indonesian MSMEs face various financial challenges, including securing adequate financing, managing cash flow, assessing investment opportunities, and making informed financial decisions (Dela Cruz et al., 2023; Pedraza, 2021). These challenges are common for MSMEs worldwide, and they hinder the growth and sustainability of these enterprises. Access to finance from formal sources like banks and non-bank financial institutions is limited for many Indonesian MSMEs, especially micro and small enterprises (MSEs) (Alibhai et al., 2017). To address these challenges, interventions and support are needed to enhance MSMEs' access to credit and financial services, improve their performance, and promote their overall welfare (Tambunan et al., 2021). The Ministry of Social Affairs in Indonesia has been involved in supporting UMKM (MSMEs) through various initiatives, aiming to assist in their creation, expansion, growth, and daily operational challenges (Yazfinedi, 2018).

Financial literacy plays a crucial role in the decision-making process of individuals and companies, including MSMEs. It encompasses the knowledge, skills, and awareness necessary for making informed financial decisions, understanding financial concepts, assessing risks, managing resources, and navigating complex financial markets. The level of financial literacy among MSME business owners in the Municipality of San Jose, Negros Oriental, Philippines was evaluated, revealing high levels of debt management, utilization of savings accounts, and knowledge of reducing spending (Yuwono et al., 2023). However, there is a need for improvement in overall personal financial management, long-term planning, emergency preparedness, and risk management (Bancoro, 2023). Improving financial literacy through comprehensive training programs and avenues for financial consultations can help microbusiness owners better manage their finances, reduce financial stress, and increase the chances of their business's success (Iqbal et al., 2023).

The important topic "What is the impact of financial literacy on investment decisions in MSMEs in Indonesia?" is the focus of this research study. In order to respond to this query, we will investigate the relationship between different aspects of financial literacy—such as financial awareness, financial competence, and financial behavior—and investment choices in Indonesia's MSME market.

The significance of MSMEs to the Indonesian economy and the expanding understanding of financial literacy as a vital instrument for long-term, sustainable economic growth serve as the foundation for this study. MSMEs frequently encounter difficulties obtaining traditional funding, as evidenced by the literature, and they mostly depend on their own internal financial resources and decision-making. Thus, raising their level of financial literacy can provide them the know-how and abilities required to take full advantage of investment possibilities, successfully manage risks, and safeguard their financial stability. This study's primary goal is to assess how financial literacy—which includes financial behaviour, financial competence, and financial awareness—affects the investment choices made by MSMEs in Indonesia.

The Grand Theory's "Financial Literacy-Based Investment Decision Framework" highlights how crucial financial literacy is in determining how Micro, Small, and Medium-Sized Businesses (MSMEs) will invest their money. Financial behaviour, financial competence, and financial awareness are the three interrelated parts of this theory. Key financial ideas are taught to individuals and businesses through financial awareness (Al Hakim & Jihadi, 2023). Financial capacity entails using financial management techniques and having access to financial resources (Ardhiani & Panjaitan, n.d.). The practical application of financial knowledge and ability in routine financial decisions is referred to as financial behaviour (Tamara et al., n.d.). These elements work together to influence MSMEs' investment decisions and results (Maurya et al., 2023; Romadhani & Handini, 2023).

The ability to successfully manage financial resources, comprehend financial ideas, and make well-informed financial decisions are all considered aspects of financial literacy. Financial behaviour, financial capability, and financial awareness make up its three main parts. The Karnataka government has launched programmes to encourage and advance financial literacy in the populace (Sangeetha et al., 2017). Research has indicated that financial literacy has a favourable impact on options related to financial inclusion, including the ability to possess an account, access banks, and obtain credit (Grohmann et al., 2018). MSME business owners in the Municipality of San Jose, Negros Oriental, Philippines, show high levels of proficiency with savings accounts and debt management; yet, they still want development with regard to risk, emergency, long-term planning, and overall personal financial management (Bancoro, 2023). The implementation of community service activities aims to enhance financial literacy by imparting knowledge on the subject and preparing participants to establish investment plans for future requirements (Munthe et al., 2023). While literal knowledge is low in Bongo Gewog, Bhutan, financial literacy is high, and there is a strong correlation between schooling and financial literacy (Gurung & Gautam, 2023).

A key element of financial literacy is financial awareness, which equips people and organisations with the information needed to make wise financial decisions. It entails comprehending important financial ideas including risk, inflation, interest rates, and investment possibilities. To make wise and responsible financial decisions, one must possess financial knowledge, awareness, and attitudes, all of which are components of financial literacy. Research has indicated that investment decisions are positively impacted by financial attitudes, financial awareness, and financial knowledge (Ardhiani & Panjaitan, n.d.). Enhancing financial literacy can also lessen financial stress, assist microbusiness owners better manage their money, and raise the likelihood that their venture will succeed (Bancoro, 2023). Because it raises understanding of the rights and obligations of consumers, financial literacy also contributes to consumer protection (Dsouza & Prakash, 2023). To make wise financial decisions and attain financial well-being, people and businesses must therefore increase their financial knowledge.

Financial literacy is only one aspect of financial aptitude. It encompasses the availability of financial resources as well as the use of money management abilities, such as having sufficient income, savings, credit availability, and the capacity to prudently manage these resources (Chen & Sun, 2023; Tahir & Richards, 2023). The role of financial

behaviour and access in impacting health outcomes has been noted in the literature on financial competence (Xiao et al., 2022). The relationships between financial competence and health have also been found to differ according to gender, with financial behaviour being more crucial for women and financial literacy being more significant for men in terms of their self-rated health and life satisfaction (Bachtiar et al., 2022). Future financial capacity research should concentrate on defining the term consistently, demonstrating how interventions can enhance financial capability and produce better results, and expanding the scope of consumer financial capability research (Khan et al., 2022). To create policies that give people the knowledge and skills they need to handle their money wisely, policymakers should try to comprehend the variables that affect financial aptitude.

The practical use of financial knowledge and abilities in day-to-day financial decision-making, such as risk management, saving, investing, and budgeting, is referred to as financial behaviour. Financial behaviour is positively and significantly impacted by financial literacy, according to research (Charlyvia & Riva'i, 2023; Iqbal et al., 2023; Rohmanto & Susanti, 2021). Financial behaviour has also been found to be influenced by risk attitude and individual investing decisions (van Wyk & Bishop, 2023). Additionally, it was discovered that self-control and personal qualities positively and significantly influenced money management behaviour (Alshebami & Aldhyani, 2022). Age also affects financial behaviour, with older people more likely to manage spending against budgets and reduce financing through loans, according to a study of qualified financial professionals. All things considered, these results emphasise the significance of personality qualities, self-control, and financial literacy in determining one's financial behaviour. They also imply that age might be a factor in financial decision-making.

Due to their unique position in the economy, MSMEs must comprehend financial literacy. They usually have trouble securing traditional financing and are forced to rely solely on their own internal financial resources and judgement. MSMEs that possess financial literacy may be better equipped to navigate the complex financial environment, leading to improved financial results and more knowledgeable investment choices (Bancoro, 2023; Falah & Haryono, 2023; Hartono & Kurniawan, 2023).

It is true that there is a substantial correlation between investment decisions made by Micro, Small, and Medium-Sized Enterprises (MSME) and financial literacy. The knowledge and comprehension of financial concepts and products, or financial literacy, is a critical factor in determining the investment choices made by MSMEs.

Financial attitudes and financial literacy have a big influence on MSMEs' investment decisions, according to an Indonesian study. The study also showed that financial behaviour can mitigate the effect of financial literacy on investing decisions (Eko, 2022). This includes the capacity to plan ahead financially and create budgets.

According to a different study, the financial performance of MSMEs operating online is significantly impacted by financial attitudes, knowledge, and literacy (Hanasri et al., 2023). This shows that raising financial literacy may result in better financial outcomes, which may make it easier for MSMEs to obtain outside funding.

Furthermore, a Makassar City study discovered that investment decisions and MSME bankruptcy are partly and considerably influenced by financial behaviour, financial attitudes, and financial literacy (Rustan, 2021). This suggests that MSMEs with a strong financial literacy are better able to manage the financial risks involved in investing. A study on the topic of digital finance discovered that financial literacy affects MSMEs' intentions to utilise digital finance (Hermawan et al., 2022). This implies that MSMEs with a strong financial literacy are more likely to use digital finance, which may improve their financial performance and investment choices.

Additionally, an Indonesian study discovered that financial literacy is a key mediating factor in guaranteeing the sustainability of MSMEs (Prasetya et al., 2021). This suggests that MSMEs can assure their firm longevity by using financial literacy to make wise financial decisions.

In conclusion, MSMEs' investment decisions are greatly influenced by their level of financial literacy. It improves their capacity to appraise investment prospects, weigh risks, and choose investment approaches that support their goals. MSMEs with better financial literacy tend to be more skilled at risk management, to diversify their investment portfolios, and to perform better financially overall. Additionally, they are more inclined to guarantee the survival of their company and embrace digital financing. Thus, raising financial literacy among MSMEs may result in better financial performance, more sustainable businesses, and more thoughtful and deliberate investment decisions.

While there is already literature highlighting the positive relationship between financial literacy and investment decisions in MSMEs, there is still a research gap in this area. In particular, there is little research on financial literacy and its influence on investment decisions in Indonesian MSMEs (Iqbal et al., 2023). Moreover, while financial awareness and capability have been widely studied, the role of financial behavior in influencing investment decisions still needs to be further investigated (Murhadi et al., 2023). In addition, few studies have comprehensively investigated the interaction between financial awareness, financial capability, and financial behavior in the context of investment decisions (Putri & Bangun, 2019). So the concept of this research is described in Figure 1 below.

2. RESEARCH METHOD

In order to evaluate the influence of financial literacy—which encompasses financial knowledge, financial competence, and financial behavior—on the investment choices made by Micro, Small, and Medium-Sized Enterprises (MSMEs) in Indonesia, this study employs a quantitative research methodology through online and offline survey methodologies. Large-scale offline surveys in major provinces like DKI Jakarta, West Java, yielded the majority of respondents for the online poll. Facebook, Instagram, WhatsApp, and other social media networks published the information gathered from the poll, even though demographic questions were not asked online. For the purpose of maintaining confidentiality, the author did not use the complete names of the respondents or any other identifying information.

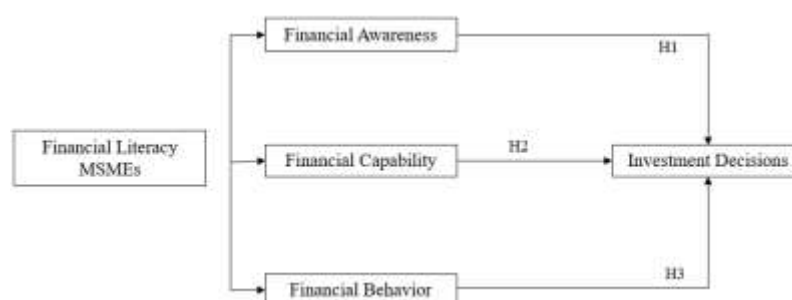


Figure 1. Conceptual Framework

A purposive approach was used to choose study participants, and pertinent considerations were made for example: (1) The responder might be core management or the owner legally. According to Republic of Indonesia Government Regulation No. 07 of 2021, which specifies standards for MSMEs, the respondent's business employs one to five persons minimum. Accounts records are present. Researchers did not choose ultra-micro businesses, including street sellers operating out of tiny carts or tents, because they do not have a high chance of receiving their goods back.

The owners and managers of MSMEs that are active in Indonesia make up the study's target demographic. The extensive economic terrain of the nation is reflected in

the MSMEs' diverse nature, which spans several industries and firm sizes. To ensure representation of various MSMEs, a stratified sample technique would be employed. According to variables like industry, business size, and geography, the population is divided using this method into subgroups, or strata. To make sure the study accounts for the diversity found in the MSME sector, a random sample will subsequently be selected from each strata. The study's sample size consisted of 164 responders. Using Hair's multivariate analysis, the sample size was established by multiplying the number of indicators by five to ten times. This ensured that the sample size chosen had adequate statistical power to identify significant linkages and effects in the SEM-PLS model.

2.1 Data Collection

An instrument for a structured survey will be used to gather data. The following important variables are intended to be measured by the survey questionnaire: (a) Financial Awareness: Respondents' comprehension of financial concepts and instruments will be gauged by a series of questions. (b) Financial Capability: Questions about budgeting, investment analysis, and financial planning are used to gauge financial capability. (c) Financial Behaviour: A series of inquiries evaluates respondents' real financial behaviours and decision-making styles. (d) Investment Decisions: Financial accounts and self-reported data are used to evaluate the investments made by MSMEs. The survey's questions will be created using validated measures and current scales from earlier studies on financial literacy and investing choices. To guarantee reliability, relevance, and clarity, the questionnaire is pretested. Both closed-ended and Likert-scale items are included in the questionnaire.

2.2 Data Analysis

Partial Least Squares Structural Equation Modelling (SEM-PLS) was used to analyse the gathered data. Examining intricate interactions and latent variables is made possible by the robust statistical technique known as SEM-PLS. This approach works especially well for examining the relationship between investment choices and the elements of financial literacy (financial behaviour, financial competence, and financial awareness).

We will create a structural equation model that connects the latent dimensions of financial behaviour, financial capabilities, financial awareness, and investment decisions. Understanding the relationships and mutual influences between these variables will be possible with the help of this model.

Preprocessing of the gathered data will include data cleansing and treatment of missing values before the SEM-PLS analysis. To further guarantee the accuracy of the model assumptions, the data's normalcy will be evaluated and, if required, transformations will be implemented.

Version 4 of the SmartPLS software will be used for the SEM-PLS analysis. As part of this research, factor loadings, composite reliability, and average variance extracted (AVE) will be used to assess the validity and reliability of the latent variables. Investigating the connections between the latent variables and putting the proposed links between the elements of financial literacy and investing choices to the test. Evaluating the significance of the associations and computing standard errors through the use of bootstrapping techniques.

3. RESULTS AND DISCUSSIONS

3.1 Demographics of Respondents

The methods of Hair et al. (2019), Hair Jr., Babin et al. (2017), and Sarstedt et al. (2017) were all followed in this investigation, which employed random sampling. This study has seven research indicators, which means that if multiplied by ten, the minimum

sample size for this study would be seventy. According to the guidelines, it is crucial to make sure that there are no missing data and to have five to ten times as many indicators when using the SEM-PLS approach in research. In the meantime, 200 surveys were sent out for this investigation, and 164 of them were returned complete. In other words, the study's sample either meets or above Hair's (2019) standards. Table 1 displays the study's demographics.

Table 1. Demographics of the Research Sample

Gender	N (164)	Percentage
Male	101	62%
Female	63	38%
Education	N (164)	Percentage
High Schools	50	30%
Bachelor; s	80	49%
Master's	34	21%
Business Size	N (164)	
Micro Enterprises	40	24%
Small Enterprises	76	46%
Medium Enterprises	48	30%
Business Experience	N (164)	Percentage
< 5 years	25	15%
6 – 10 years	65	40%
11 – 15 years	43	26%
16 – 20 years	18	11%
> 20 years	13	8%

Source: Primary Data (2023)

Factors related to gender The diversity of our sample is explained in Table 1, which also offers important background information for understanding the results of our investigation into how financial literacy affects investment choices made by Micro, Small, and Medium-Sized Enterprises (MSMEs) in Indonesia. With 62% of respondents being men and 38% being women, the gender distribution of our sample is pretty balanced. The gender distribution in Indonesia's MSME sector is indicative of its dynamic and inclusive nature. Our study's inclusion of both male and female entrepreneurs guarantees a more thorough knowledge of how financial literacy affects investment decisions made by people of different genders.

Our respondents' educational backgrounds reveal a wide range of backgrounds. The participants' educational backgrounds are as follows: about 30% have completed high school, 49% hold a bachelor's degree, and 21% have a master's degree. The wide range of educational backgrounds highlights the diverse makeup of MSME managers and owners in Indonesia. This suggests that in order to improve investment decision-making, financial literacy initiatives and interventions should be tailored to the needs of people with varying educational backgrounds.

An essential component of our sample is the respondents' dispersion across various business sizes. Of the sample, small businesses make up 46%, medium businesses 30%, and micro businesses 24%. Given the abundance of small businesses, it is likely that the majority of MSMEs in Indonesia belong to this group. Given the wide range of resources, possibilities, and constraints that these various business sizes face, it is critical to take into account their specific financial literacy requirements and investment behaviours.

The variety of company experiences exhibited by our participants demonstrates the wide diversity of entrepreneurial experiences within Indonesia's MSME sector. Eleven percent of the respondents have fewer than five years of experience, forty percent have ten to fifteen years of experience, twenty percent have sixteen to twenty years of experience, and eight percent have more than twenty years of experience. A combination of comparatively young and older enterprises are represented in this distribution. In our

analysis, it is important to comprehend the relationship between financial literacy and investment decisions and the degree of business experience.

3.2 Descriptive Statistics

Table 2. Statistics Descriptive

Variable	Mean	Skala
Financial Awareness	3.68	1 – 5
Financial Capability	3.82	1 – 5
Financial Behavior	4.12	1 – 5
Investment Decisions	3.95	1 – 5

Source: Primary Data (2023)

The study's descriptive data are displayed in Table 2. Assessing Financial Literacy On a 5-point rating, respondents' average financial awareness score was 3.68. This suggests that Indonesian MSME owners and managers have a mediocre comprehension of financial concepts and tools. Based on investment research, financial planning, and budgeting, financial competence was evaluated. The sample's average score for financial capability is 3.82, suggesting a rather high degree of financial competence. Respondents with an average score of 4.12 showed positive financial behaviours. This suggests that MSME managers and owners follow responsible financial practises, such as making investments and saving money.

Capital allocation, technology adoption, expansion, diversification, and financial risk management techniques were examined in order to assess MSMEs' investment decisions. A modest degree of strategic and well-informed investment choices was indicated by the average score of 3.95 for investment selections.

3.3 Validity and Reliability

The classification and validation of the data gathered by the study's researchers was quite well-done. In order to assess the validity and reliability of the feedback forms, they carried out a number of processes, such as factor loading, Cronbach's alpha, and composite reliability. Additionally, the AVE, Fornell and Larcker Criteria, VIF analysis, and the HTMT (Heterotrait-Monotrait) ratio were utilised in this study to assess the convergent and discriminant validity.

Table 3. Validity and Reliability of Research

Variable	Items	Code	Loading Factors	Outer VIF
Financial Awareness	Cronbach's Alpha = 0.846, Composite Reliability = 0.896, AVE = 0.684.			
	1. I am aware of fundamental financial ideas like compounding, inflation, and interest rates.	FAW.1	0.787	2.627
	2. I am fully aware of the distinctions between a bank's savings account and fixed deposit account.	FAW.2	0.866	2.630
	3. I am aware of the idea of risk diversification in the financial world.	FAW.3	0.878	2.385
	4. I am aware of how inflation affects the long-term real value of money.	FAW.4	0.773	1.846
Financial Capability	Cronbach's Alhpa = 0.882, Composite Reliability = 0.919, AVE = 0.740.			
	1. To keep track of my money, I frequently make a personal or corporate budget.	FAC.1	0.841	2.184
	2. Over the last 12 months, I have actively sought guidance or information regarding investing decisions.	FAC.2	0.830	2.169
	3. I am confident in my ability to evaluate investing possibilities when making significant financial decisions.	FAC.3	0.812	1.635
	4. I keep a close eye on and regularly analyse my investment portfolio and financial statements.	FAC.4	0.807	1.739

Financial Behavior	Cronbach's Alhpa = 0.842, Composite Reliability = 0.893, AVE =0.677.			
	1. I usually set aside a portion of my paycheck for savings.	FAB.1	0.856	1.584
	2. In the last year, I have made investments in financial instruments such as stocks, bonds, and mutual funds.	FAB.2	0.923	2.414
	3. Before deciding on an investment, I frequently compare various financial goods and chances.	FAB.3	0.860	2.498
	4. I frequently consider how to manage my financial risks, including choices about emergency savings or insurance.	FAB.4	0.796	1.730
Investment Decisions	Cronbach's Alhpa = 0.897, Composite Reliability = 0.921, AVE = 0.661.			
	1. I frequently weigh the benefits and dangers of a possible investment before making one.	IDE.1	0.833	2.250
	2. Having a well-defined investing plan is crucial for me when contemplating investments.	IDE.2	0.833	2.152
	3. To reduce risk, I have spread my investments throughout a variety of asset classes, such as stocks, bonds, and real estate.	IDE.3	0.734	1.711
	4. I am aware that my financial choices have tax ramifications.	IDE.4	0.864	2.240
	5. I actively seek out expert financial guidance prior to making significant investment decisions.	IDE.5	0.827	2.610
	6. I evaluate the effect of my investments' liquidity on my financial status.	IDE.6	0.780	2.010

Source: Primary Data (2023)

3.4 Measurement Model

The measuring model is a crucial component of the research framework as it examines the relationship between measures and the latent variables under investigation. Structural equation modelling (SEM) quantifies the relationship between the components supporting the theory and the data gathered from surveys and research projects. According to Hair et al. (2019) and Sarstedt et al. (2021), this study employs confirmatory factor analysis (CFA), with factor loadings having a minimum threshold value of 0.7, to assess the efficacy and competency of the suggested measurement model. The Standardised Root Mean Square Residual for the Structural Equation Modelling model fit index (SRMR) is 0.078, which is within an acceptable range based on prior research (Cho et al., 2020). In the study, a close match is defined as having an RMSEA value less than 0.05. A fair match is indicated by values between 0.05 and 0.08, whereas an unsatisfactory fit is indicated by values more than 0.1. This study's SRMR value of less than 0.08 is often regarded as a satisfactory fit.

The capacity of the model to predict endogenous variables based on exogenous variables and latent constructs in SEM is then measured to assess model fit and predictive relevance. Our study's Q2 value came out to be 0.68. This Q2 score suggests that the model has a high predictive significance since it demonstrates a significant capacity to forecast endogenous variables, in this case, the investment choices made by MSMEs in Indonesia.

A further indicator of how well the model fits the data overall is R2, or the coefficient of determination, which quantifies how much the model explains the variance in the endogenous variables. With regard to our structural equation model, the R2 value is 0.72. The majority of the variance in the endogenous variables is explained by the model, which is indicated by the high R2 score. The relationship between financial awareness, financial competence, financial behaviour, and investment decisions in the Indonesian MSME sector is well represented by the framework for financial literacy-driven investment decision-making, as this shows.

Our SEM analysis yielded Q2 and R2 values, which highlight the model's overall fit and prediction ability. While the R2 of 0.72 indicates a great fit of the model to the data, the Q2 value of 0.68 reflects the model's ability to properly anticipate investment decisions. In the case of MSMEs in Indonesia, these findings support the stability of our SEM framework and offer insightful information on how financial literacy affects investment decisions.

3.5 Test of Hypothesis Using Bootstrap

The hypothesis is deemed statistically significant when the t-statistic value is calculated with a 95% confidence level and exceeds the crucial t-statistic threshold (>1.96). Software called SmartPLS bootstrap was used to generate the findings that were reported. A comprehensive analysis of the predicted constructs, including beta values, means, standard deviations, t-values, and p-values, is given in Table 5. Several important linkages in the "Financial Literacy-Driven Investment Decision Framework" were discovered using structural equation modelling research.

Table 4. Hypotesis Test

Hypotesis	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-statistic	p-Values
Financial Awareness -> Investment Decision	0.328	0.330	0.093	3.283	0.000
Financial Capability -> Investment Decision	0.453	0.455	0.073	5.327	0.000
Financial Behavior -> Investment Decision	0.279	0.280	0.114	2.973	0.003

Source: Primary Data (2023)

Table 4 presents the data for the hypotheses concerning financial behaviour, financial competence, and financial awareness in relation to investment decisions. It also includes the original sample (O), sample mean (M), standard deviation (STDEV), t-statistic, and p-value. With respect to financial knowledge and investment decisions, the hypothesis has the following statistical parameters: sample mean of 0.328, standard deviation of 0.093, t-statistic of 3.283, and p-value of 0.000. The study aims to investigate the relationship between investment decisions and financial capabilities. The sample mean is 0.453, the standard deviation is 0.073, the t-statistic is 5.327, and the p-value is 0.000. The sample mean, standard deviation, t-statistic, p-value, and financial behaviour and investment decisions for the hypothesis are 0.279, 0.114, and 2.973, respectively. This suggests that better-informed investing decisions are linked to higher levels of financial literacy. Stronger financial capabilities increase the likelihood that MSMEs' owners and management will make wise investment choices. Investment decisions are influenced by sound financial practises, such as careful saving and investing.

3.6 Discussion

In the context of MSMEs in Indonesia, the study's findings offer insightful information about the relationship between financial literacy and investment decisions. The majority of MSMEs understand the impact of their investment decisions on the sustainability of their business and welfare, and even 70% of respondents have NPWP. Furthermore, the respondents demonstrate strong financial literacy. The following background can be used to discuss these findings:

a. Financial Decision-Making and Financial Literacy

This study demonstrates that investment decisions in the MSMEs sector are highly influenced by financial literacy, which is comprised of financial behaviour,

financial competence, and financial awareness. Investment decisions in the MSMEs sector are heavily influenced by financial literacy, which encompasses financial behaviour, financial aptitude, and financial awareness. The decisions made about investments are influenced by the interconnection of these elements (Al Hakim & Jihadi, 2023; Bancoro, 2023; Oppong et al., 2023). Higher financial literacy has been linked to better financial behaviour and the ability to make well-informed investment decisions, according to research (Hartanti et al., 2023; Iqbal et al., 2023). Furthermore, it has been demonstrated that financial literacy significantly and favourably affects financial satisfaction, underscoring the role that financial literacy plays in influencing investment choices. To increase their comprehension of financial ideas, strengthen their financial aptitude, and make better investment decisions, those working in the MSME sector must undergo financial literacy training and instruction.

The assumption that better levels of financial literacy are linked to more informed, strategic, and sensible investment choices is supported by the positive relationship between financial awareness, financial capacity, financial behaviour, and investment decisions. In fact, more financially literate people make wiser, more calculated, and well-informed investing decisions. (Fan, 2022; Iqbal et al., 2023); (Al Hakim & Jihadi, 2023; Ardhiani & Panjaitan, n.d.); (Fan, 2022; Mirosea & Hajar, 2023). The study's conclusions show that financial literacy significantly and favourably influences investing choices. Investment decisions are significantly influenced by financial behaviour as well. Furthermore, sound financial judgement is influenced favourably by financial attitudes, knowledge, and awareness. Individual investment decisions act as a mediator in the interaction between financial behaviour, financial literacy, and investment decisions. Furthermore, there is a stronger correlation between financial literacy and investment decisions when one is religious. The impact of financial knowledge on investing decisions is mitigated by family influence. Financial knowledge mediates the substantial favourable association between financial education applications and financial investment decisions. These results emphasise how crucial financial behaviour and knowledge are to choosing wisely when making investments.

b. Policy Implications

The study's conclusions have important policy ramifications. Targeted interventions are required to raise financial literacy among MSMEs owners and managers in order to promote economic growth and increase the competitiveness of MSMEs in Indonesia. Programmes for financial education, workshops, and the availability of materials that support sound financial knowledge, abilities, and conduct can help achieve this.

c. Practical Implications

This report emphasises how crucial it is for MSMEs managers and owners to invest in their own financial literacy. Enhancing their knowledge of financial ideas, building their financial capacity, and displaying sound financial practises will help them make wiser investment choices, which can help their businesses expand and succeed.

d. Limitations

It is critical to recognise the study's limitations. Because the results are based on self-reported data, social desirability bias could have an impact. Furthermore, because the MSME sector in Indonesia is the study's primary emphasis, it's possible that the findings cannot be applied in all situations.

4. CONCLUSION

This study offers a thorough analysis of how financial literacy affects investment choices in Indonesia's distinctive and ever-changing market of micro, small, and medium-sized enterprises (MSMEs). Utilising the "Financial Literacy-Driven Investment Decision Framework" as a guide, the study emphasises the connection between investment decisions and financial behaviour, financial competence, and financial awareness.

The data demonstrates how financial behaviour, financial competence, and financial awareness—the three pillars of financial literacy—have a big impact on investing choices. Investment decisions that are more well-informed, strategic, and sensible are correlated with higher financial literacy. These findings have important policy ramifications since they emphasise how crucial it is to support financial literacy efforts and programmes that are specifically designed to meet the needs of Indonesia's MSMEs.

This report emphasises how important it is for MSME owners and managers to make an investment in their own financial literacy as their companies continue to navigate the ever-changing financial landscape. Enhancing their knowledge of financial ideas, building their financial capacity, and displaying sound financial practises will help them make wiser investment choices, which will support the expansion and prosperity of their companies.

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