

# EFFECT OF FINANCIAL LITERACY AND *LOCUS OF CONTROL* ON MSME PERFORMANCE IN MAESAN DISTRICT, BONDOWOSO REGENCY

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Financial Performance

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**Abstrac**

Quantitative method. A sample of 100 MSME actors using non-probability sampling technique and proportional stratification allocations were divided into 90 micro businesses, 9 small businesses and 1 medium business. The collection tool is in the form of a questionnaire. Data analysis used SPSS 23 multiple linear regression. The results of the study stated that financial literacy had a significant positive effect on financial performance, while *locus of control* had no effect on MSME financial performance. And simultaneously there is a positive and significant influence between locus of control and financial literacy on the financial performance of MSMEs in Maesan District, Bondowoso.

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## INTRODUCTION

MSMEs in East Java in 2021 obtained the highest level by 9,151,808 micro businesses, 583,922 small businesses, and 68,947 medium-sized businesses (Diskopukm, 2021). The government's focus on MSMEs is contained in the Presidential Regulation, Number 6/2007, regarding policies to accelerate real sector development and increase MSME capabilities.

Likewise, the development of MSMEs in one of the regencies in East Java Province, namely Bondowoso Regency. In September 2021 ago, Tape criski, which is Bondowoso's flagship product, won second place in a competition held by the Indonesian Armed Forces Wives Association, involving 78 MSME

delegates throughout Indonesia. In addition, at the Pesona Indonesia Expo event which took place in Surabaya last February. Again, MSME products from Bondowoso can penetrate *the sales on board* at Garuda Indonesia with the Ijen-Raung Coffee and Tape Crispi products, they are contracted to sell their products on the plane.

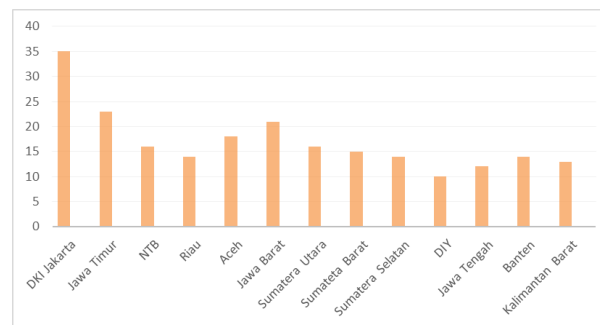
Head of Bondowoso Diskoperindag, Bambang Soekwanto, said that in 2020 there will be 350 new entrepreneurs from various types of MSMEs, including: plantation sector such as coffee, cassava, tree, fruit sector including avocado, guava, durian and banana. In addition, there are handicraft industry sectors such as woven bamboo craftsmen, tile craftsmen, clay bricks and souvenir makers. The food industry sector, such as cassava chips, tempe chips, and banana sales. Based on data from Diskoperindag, the number of MSMEs in Bondowoso Regency is 39,158 from various sectors.

The case, in Bondowoso, is Maesan District. This is one of the sub-districts with a fairly large population and this is where the most business actors in Bondowoso Regency, this can be a benefit in efforts to advance the economy in this District. There are also many natural resources in Maesan District, consisting of agriculture, animal husbandry, fields and fisheries that can be used as capacity to advance the economic level of the surrounding community. The number of MSMEs in Maesan District has now reached 3,687 actors spread across 12 villages.

Statistically, the contribution of cooperatives and SMEs to the East Java economy from 2016-2020 is more than 56% (Setiawan, 2018). Of course this will give birth to young business people, especially in East Java who have ambitions for entrepreneurship and have personal income. There are 5 regencies that are included in the top highest contribution to the economy in East Java, namely the City of Surabaya at 283.43 trillion, Sidoarjo Regency at 106.82 trillion, Pasuruan Regency at 86.76 trillion, Gresik Regency at 74.81 trillion, and Malang Regency amounted to 69.87 trillion.

The high number of micro-enterprises is due to the fact that people start their businesses with small funds, which come from savings and family assistance. Setyobudi cites the results of a Bank Indonesia survey which says

existing MSMEs still have low financial literacy (Setyobudi, 2017). Previous research conducted by Astuti and Santoso in its findings showed that MSME actors had inadequate financial understanding (Santoso, 2017). Meanwhile, financial literacy or knowledge is very important because the public is expected not only to see and capture the products of financial service institutions, but also to improve people's behavior in managing finances so that they can make efficient and effective decisions and be able to improve the welfare of MSME actors. And this financial literacy does not only have implications for individuals, and companies, but can also provide welfare in a country which is usually measured by the economic growth of a country. (Sujianto, 2018).



**Figure 1. Provincial Financial Literacy Index above Average**

The unequal distribution of financial literacy in Indonesia can also be seen from a survey conducted by OJK in 2019, that there are only 13 out of 34 provinces that have above average financial literacy (OJK, 2021). The table above shows that East Java occupies the second point, namely 23.56%, meaning that there is still room for efforts to increase public understanding of financial products or services in Indonesia. So that financial education must be accelerated through various policy mixes with the use of technology.

Rohrke and Robinson (2000) reveal, financial literacy is knowledge and skills to control finances in achieving prosperity. *Financial literacy* in MSMEs will help entrepreneurs on how to manage a business starting from funds, business savings planning, and basic financial knowledge to reach their goals. The results of previous research by (Ariwibawa, 2016), confirmed that there was an influence of financial literacy on the performance of MSMEs.

And Gachango's research also explains that the level of financial understanding of MSME actors in the field is still low, entitled "*Effect Of Financial Literacy On Personal Financial Management Practices: A Case Of Employees In Finance And Banking Institutions In Kenya*". The result states that the factor that influences the practice of personal financial management is *financial literacy*, while other factors, such as the level of education in the practice of personal financial management, can also have an effect.

(Fatoki, 2014) also conducted research on *financial literacy*, which had a positive impact on the ability to make financial decisions. Can benefit the company family and company performance. Fatoki's view shows that financial literacy is very important for every business group, especially MSMEs in Indonesia, to advance performance and compete in global competition.

In MSMEs, financial decisions are of course made by the manager or business owner. Decisions must be made with careful review, and managers must have *financial literacy* and be encouraged in many ways when made. And. *locus of control* is a factor that can influence a person's financial attitude. Therefore, *locus of control* is a concept that shows a person's beliefs about events that occur in life. This includes the belief that the success or failure of an activity was caused by or beyond its control.

If a person can control his finances well then the *locus of control* will have a good impact, otherwise if someone can't control his finances well it will have a bad impact. Therefore, MSME actors must be required to have financial planning competence in business, make decisions effectively and efficiently so that their business can generate maximum profits.

Based on the results of Wahyu's research (2019), entitled "*The Effect Of Internal Locus of Control And Interpersonal Ability On The Readiness Of Creative Economics Students In Managing Their Sustainable Business*". The results obtained concluded that the variable points of internal control and interpersonal skills have a positive and significant influence separately.

## **LITERATURE REVIEW**

### **a. Financial Performance**

Performance refers to the achievement of a person's work both in quantity and quality in carrying out his responsibilities (Mangkunegara, 2006). Financial performance is also a measure of how well a company implements its financial rules properly and correctly (Fahmi, 2012). Financial performance is also defined as the achievement of a company within a certain period of time, which is one of the basic assessments of the company's financial situation and becomes a benchmark for measuring the effectiveness and efficiency of managers' decision-making.

The Islamic view related to the Islamic perspective emphasizes that everyone as a business person maximizes all available natural resources as a means of life in the world. As the word of Allah SWT which is contained in Surah al-Kahf 7, which means Say "Indeed, We have made what is on earth as an adornment for him, so that We may test them as to which of them is best in deed." Islam commands every Muslim to earn a living that is lawful and blessed, namely encouraging production and economic activities in various commercial fields such as agriculture, plantations, trade and industry. By working everyone can provide assistance to people in need.

### **b. Financial Literacy**

Manurung argues that financial literacy is a person's skills and knowledge that allows that person to make wise decisions by using the knowledge he has (Manurung, 2009). Another definition of financial literacy is the ability to manage finances in order to live richly in the future (Volpe, 1998). Meanwhile, OJK defines financial literacy as a form of improving the quality of decision making and financial management that utilizes knowledge, skills and beliefs that are applied to behavior and attitudes.

Therefore, financial literacy is better known as knowledge of managing finances, it becomes the basis for everyone to avoid financial problems and becomes very important over time. OJK views financial literacy as an activity or

method designed to promote the knowledge, trust, and skills of the wider community so that they can manage their finances well.

**a. Locus of Control**

*Locus of control* is the belief that everyone can control events and risks that can have an impact on a person's life (Kinicki, 2015). Lefcourt argues, *locus of control* is the extent to which a person perceives events in his life as a result of his actions and therefore can be controlled (*locus of control*), or unrelated to his actions outside his personal control (*locus of control*).

This states that if financial control is maximized it will risk a more targeted financial management behavior. In other words, these factors become determinants of behavior, especially in managing material. A previous study by Senja Arum Sari (2018) entitled "*The impact of financial knowledge, financial attitudes, and internal locus of control on financial management behavior in MSME actors (Studies at batik craft centers in Central Java)*". The results state that knowledge and *locus of control* have a positive influence on financial management behavior

**RESEARCH METHODS**

This type of quantitative research, the aim is to see the relationship between the influence of two variables (Sugiyono, 2018). The population in the study amounted to 3,687, namely all SMEs in Maesan District. The sampling technique used *non-probability sampling* and the determination of the sample size used the Slovin formula with an error rate of 10%, which was 100 respondents.

To determine the sample for each member, it is done with a *Proportionate Stratified* from each population whose numbers are in sync with the number of population members by:

**Table 1. Calculation of the number of samples**

No	Anggota	Perhitungan strata anggota	Hasil
1	Umi	$3.322/3.687 \times 100$	90
2	UK	$336/3.687 \times 100$	9
3	UM	$29/3.687 \times 100$	1

Source: Data processed by researchers (2022)

The data of this study used primary and secondary data. The data

collection method used in this study was a questionnaire, namely the Likert scale. Using validity and reliability tests to test research variables, using correlation coefficients, coefficients of determination, and analysis tools for hypothesis testing.

## RESULT AND DISCUSSION

### a. Validity Test Results

**Table 2. Validity Test Results**

Y	P1	0.391	0.196	Valid
	P2	0.565	0.196	Valid
	P3	0.277	0.196	Valid
	P4	0.495	0.196	Valid
	P5	0.515	0.196	Valid
	P6	0.519	0.196	Valid
	P7	0.386	0.196	Valid
	P8	0.418	0.196	Valid
	P9	0.519	0.196	Valid

	Item	R Hitung	R Tabel	Ket
X1	P1	0.434	0.196	Valid
	P2	0.446	0.196	Valid
	P3	0.416	0.196	Valid
	P4	0.465	0.196	Valid
	P5	0.545	0.196	Valid
	P6	0.348	0.196	Valid
	P7	0.398	0.196	Valid
	P8	0.535	0.196	Valid
	P9	0.545	0.196	Valid
	P10	0.471	0.196	Valid
	P11	0.363	0.196	Valid
	P12	0.439	0.196	Valid
	P13	0.291	0.196	Valid
	P14	0.458	0.196	Valid

X2	P1	0.364	0.196	Valid
	P2	0.330	0.196	Valid
	P3	0.413	0.196	Valid
	P4	0.357	0.196	Valid
	P5	0.346	0.196	Valid
	P6	0.538	0.196	Valid
	P7	0.449	0.196	Valid
	P8	0.407	0.196	Valid
	P9	0.476	0.196	Valid
	P10	0.328	0.196	Valid

Source: SPSS 23 output (2022)

The results of the validity test of each variable, financial literacy with 14 questions, locus of control 10 questions, and 9 questions for the MSME financial performance variable were declared valid.

**b. Reliability test results**

**Table 3. Reliability test results**

Variable	Cronbach's Alpha	Taraf Kemantapan Alpha	Ket
Financial Literacy (X1)	0.704	0.6	Reliabel
Kinerja Keuangan (Y)	0.653	0.6	Reliabel
Locus of Control (X2)	0.685	0.6	Reliabel

Source: SPSS 23 output (2022)

The results of the analysis stated that the questionnaire data consisting of 14 questions for the financial literacy variable, obtained a very high value of 0.704. 10 questions for the *locus of control* obtained a value of 0.685. And 9 questions from the financial performance variable obtained a value of 0.653 the value of the *Cronbach's Alpha* coefficient calculated for the 3 variables is greater than 0.6. It can be concluded that the questionnaire in this study is reliable.

**c. Multiple Linear Regression Test Results**

**Table 4. Multiple Linear Regression Test Results**

Coefficients					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	29.121	5.671		5.135	0.000
Financial literacy	0.174	0.062	0.276	2.800	0.006
Locus of control	-0.036	0.091	-0.039	-0.390	0.697

Source: SPSS 23 output (2022)

From the table above, the regression equation is obtained, namely:

$$Y = 29.121 + 0.174 - 0.036$$

The results of the analysis, obtained a positive value indicating that there is a unidirectional effect between X1 and X2 on Y. If all dependent variables are



equal to 0, then the performance value of MSMEs in Maesan sub-district is 29,121

Literacy regression coefficient value financial literacy (X1) is 0.174, which means that if the financial literacy variable increases by 1%, the performance variable decreases by 0.174. variable financial literacy, the tcount value is 2.800 while the ttable is 1.660 with a significant level of  $0.006 < 0.05$ , so hypothesis 1 is accepted.

The regression coefficient value for the *Locus of Control* is -0.036, this value has a negative influence between the locus of control on the performance of SMEs. Which means, if the *locus of control* has increased by 1%, then the performance variable will decrease by 0.064 and the tcount value is -0.390 and ttable is 1.660 with a significance value of  $0.697 > 0.05$ , so hypothesis 2 is rejected.

#### d. F Test Results Count

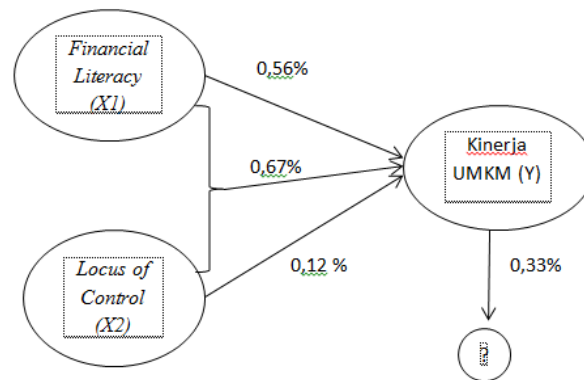
Table 5. F Test Results Count

ANOVA					
Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	51.377	2	25.688	4.305	.016 <sup>b</sup>
Residual	578.813	97	5.967		
Total	630.190	99			

Source: SPSS 23 output (2022)

The results of the F statistical test, obtained Fcount of 4.305 while Ftable of 3.09 with a significance level of 0.016. Because Fcount  $4.305 > 3.09$  and a significance value of  $0.016 < 0.05$ , it means that the hypothesis is accepted and there is a significant influence between locus of control and financial literacy on the performance of MSMEs in Maesan District, Bondowoso District.

#### e. Research paradigm



**Gambar 2. Research paradigm**

The results of the coefficient of determination state that there is an influence of financial literacy performance. SMEs by 0.56%. Based on the results of the t-test hypothesis 1 is accepted. This means that financial literacy has a significant effect on the performance of MSMEs. The results of this study are reinforced by the research of Sanistasya (2019), Dayanti (2020), Ningsih (2020), Ariwibawa (2016), Musdholifah (2017), Ramadhan (2017), Sagoro (2018) and Gadi djou (2016) that the financial literacy has a positive effect on the performance variable of MSMEs.

The results of the coefficient of determination show that the influence of *locus of control* on the performance of SMEs is 0.12%. Hypothesis 2 is rejected, which means that there is no significant effect between locus of control on MSME performance. This research is reinforced by Sofi's research (2018) which explains that locus of control has no effect on investment decisions. Meanwhile, the results of this study contradict the research of Wardani (2018), Kusumadewi (2017), and Prastiawan (2018) which say that there is a significant influence between locus of control on financial performance.

Coefficient value determination said that there was an influence between *locus of control* and financial literacy on the performance of SMEs by 0.67%, the remaining 0.33% was influenced by other variables not examined. The results of this study are in line with Kusumadewi research (2017) that locus of control and financial literacy affect the financial performance of MSMEs.

## CONCLUSIONS AND SUGGESTIONS

The results of the analysis show that there is a positive and significant influence between financial literacy on the performance of MSMEs in Maesan District, Bondowoso Regency. This is because good financial knowledge of MSME participants will support

their ability to manage business finances and by being able to control the finances of MSME participants. financial literacy among MSME actors will have an impact on improving performance.

*Locus of control* has been proven to have no impact on the performance of MSMEs in Maesan District, Bondowoso Regency, which prioritizes their own initiative and believes they will be able to manage their finances well without outside interference.

Based on the results of the first and second hypotheses, financial literacy with locus of control has a significant positive effect on the performance of MSMEs in Maesan District, Bondowoso Regency. The higher a person's level of financial literacy, the greater the perception of that person's success that does not come from destiny, fate, or others in power. But it comes from internal factors such as skills, abilities, and efforts so that financial planning behaves well.

Future research is expected to focus more on one of the commercial criteria, or compare techniques to differentiate between micro, small and medium enterprises, thereby making research results more valid. In addition, further researchers are expected to be able to add measuring tools outside the study to determine the level of company financial performance.

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