

An Empirical Analysis of Factors Affecting Financial Well-Being among MSMEs in Yogyakarta

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Abstract

MSMEs continue to struggle with low levels of financial well-being among business owners, financial fragility, and business sustainability. The purpose of this study is to determine the financial characteristics, financial behavior, and financial literacy of MSMEs in Yogyakarta's Special Region.

Purposive sampling was used, and the criteria were active MSMEs that had been in business for at least two years. Structural Equation Modeling (SEM-PLS) was used to analyze the data. The findings show that financial behavior has a negative impact on financial well-being, financial literacy has a good impact on financial behavior and financial traits, and both financial literacy and financial traits have a negative impact on financial well-being.

Keywords : Financial Literacy; Financial Traits; Financial Behavior and Financial Well-Being

INTRODUCTION

A condition of financial well-being is one in which an individual is equipped to handle future financial obligations (Strömbäck et al., 2017). The person can make decisions to enjoy life and fulfil present and future financial commitments. A healthy financial situation is essential to human existence. A healthy financial situation is necessary for almost all human needs (Rahman et al., 2021). A person or family that has enough money to live comfortably and prosperously is said to be financially well-off. When a person can efficiently manage their finances to satisfy their present and future needs without experiencing undue financial stress, they are said to be in a state of financial well-being. When a person can satisfy their basic needs, efficiently manage their finances, feel confident about the future, and handle financial shocks without experiencing undue stress, they are said to be in a condition of financial well-being (Sajid et al., 2024).

Financial literacy affects financial well-being because sound financial decisions are based on financial understanding. On the other hand, poor financial literacy frequently makes it simple for someone to make poor money management decisions (Philippas & Avdoulas, 2020). Thus, an individual's likelihood of attaining greater financial well-being increases with their level of financial literacy. A person's psychological qualities, including their views toward money, are described by their financial traits. Financial characteristics are thought to have an impact on financial well-being through the development of dependable financial practices such persistent saving, avoiding consumer debt, and establishing sensible financial priorities (Grohmann, 2018).

In the literature on economics and behavioural finance, the study of financial well-being has grown quickly, especially when it comes to households and individuals. According to early research, financial well-being is a subjective condition that reflects a person's contentment and sense of security

with relation to their present and future financial circumstances. The Consumer Financial Protection Bureau (CFPB) and the Organization for Economic Cooperation and Development (OECD) have recently highlighted that financial well-being is influenced by psychological and behavioural aspects, such as financial characteristics and financial behaviour, in addition to income levels. The association between financial literacy, financial characteristics, and the impact of financial advisors on financial well-being is mediated by financial behaviour. People who are very financially literate typically understand how to manage their income, expenses, and investments. But only when this knowledge is applied to sound financial practices like saving, prudent investing, and avoiding consumer debt does it help to financial well-being. Similar to this, a person's everyday financial decisions are influenced by their financial characteristics, which ultimately show up in their financial behaviour (Owusu et al., 2023).

International research has started to connect healthier financial behaviours, such budgeting, keeping financial records, and keeping personal and corporate finances apart, with financial attitudes, such as attitudes toward risk, planning, and debt management, in the context of MSMEs. It has been demonstrated that financial behaviour directly affects MSME resilience to economic shocks, business sustainability, and finance availability. In the meantime, MSMEs' financial attitudes and behaviours are influenced by their formal and informal educational background, which is frequently positioned as a supportive factor in financial literacy (Sajid et al., 2024).

Nevertheless, there are a number of drawbacks to the current state of the art. First, the majority of research still concentrates on MSMEs in industrialised nations or uses extensive national data without taking regional and local context into account. Second, a lot of research examines how financial literacy directly affects company performance (Showkat et al., 2025), but have not thoroughly investigated the multifaceted construct of the structural relationship between financial attitudes, financial behaviour, educational background, and financial well-being. Third, there is still a dearth of descriptive research in Indonesia, especially at the regional level like the Special Region of Yogyakarta (DIY).

This study is innovative in a number of important ways. First, this study focuses on MSMEs in the Special Region of Yogyakarta (DIY), which offers a better contextual perspective due to their diverse social, cultural, and educational qualities. Second, this study goes beyond only financial performance or income to explain MSME financial well-being by combining financial attitudes, financial behaviour, and educational background into a single empirical model. Third, this study presents educational background as a strategic determinant that can either improve or diminish the relationship between attitudes, behaviour, and financial well-being, rather than just as a control variable. As a result, it is anticipated that the research findings would offer theoretical contributions to the advancement of MSME behavioural finance as well as pertinent policy implications for regional financial empowerment and education initiatives.

LITERATURE REVIEW

Financial Behavior and Financial Well-Being

When someone is able to fulfil all of their needs, has money left over, can manage their finances and feels safe both now and in the future, they are said to be in a state of financial well-being (Hamurcu et al., 2025). Individual happiness in six domains business, finance, home, recreation, health, and environment indicates well-being (Mutlu & Ozer, 2019). As a result, it is clear that the idea of well-being includes every facet of life. Based on an individual's subjective assessment of their financial circumstances, financial well-being is defined as being financially sound, content, and worry-free. In contrast to human finance, financial behaviour is an approach to financial issues that promotes financial well-being. (Stolper & Walter, 2017). The tangible and spiritual components of a person's financial situation determine their level of financial well-being. According to this description, financial well-being is a condition in which an individual is able to manage their finances, feel content and worry-free about their financial issues, and have enough money to cover their basic necessities. (Moolman, 2022). A person in a condition of financial well-being is able to manage their everyday finances and deal with financial challenges. When an individual or family has enough money to live comfortably, they are said to be financially well-off. Setting financial objectives, allocating income, and making wise financial decisions can all contribute to well-being. Achieving financial well-being enables people and families to control their expenditures and stick to their plans (Rapina et al., 2023).

H₁. Financial behaviour has an impact on financial well-being

Financial Literacy and Financial Behavior

The capacity to comprehend and use a variety of financial concepts and abilities, including money management, budget planning, saving, investments, and debt management, is known as financial literacy. In the face of contemporary economic realities, people with strong financial literacy are able to make logical and wise financial decisions. (Chaudhry et al., 2024). A person with a high degree of financial literacy is more likely to exhibit sound and responsible financial behaviour since they are better able to comprehend the opportunities and hazards associated with making financial decisions (Heo et al., 2024).

The term "financial behaviour" relates to a person's actual financial resource management practices, such as investing, saving, limiting consumption, and avoiding wasteful debt. A person's capacity to apply their financial knowledge and comprehension is reflected in their good financial behaviour (Silalahi et al., 2023). Therefore, the main basis for cultivating responsible financial behaviour is financial literacy. Financial behaviour and financial literacy are positively correlated, according to numerous empirical studies. Higher financial literacy is typically associated with better financial practices, including investment, financial planning, and refraining from impulsive purchases. Since financial literacy gives people a foundation for risk management and financial well-being, it is essential in predicting appropriate financial behaviour (Mireku et al., 2023). Low levels of financial literacy are frequently the primary cause of the growth of foolish financial behaviours in today's culture, particularly in developing nations, such as consumerism, excessive debt, or a lack of knowledge about saving and investing (Syrén et al., 2020).

H₂. Financial literacy has an impact on financial behavior

Financial Literacy and Financial Traits

Given the complexity of the contemporary financial system, the impact of financial literacy on financial characteristics is a topic that is becoming more and more pertinent in the study of human financial behaviour (Resmi et al., 2019). The capacity to comprehend financial concepts, including money management, investments, savings, debt, and financial planning, is referred to as financial literacy. Financial attributes, on the other hand, refer to a person's qualities or traits in handling money, such as self-control, discipline, prudence, and long-term focus (Resmi et al., 2023).

In theory, those who are highly financially literate typically exhibit more favourable financial characteristics (Liu et al., 2024). This results from a deeper comprehension of the advantages and disadvantages of any financial choice. For instance, someone who recognises the value of investing diversification may make more cautious choices, demonstrating prudence. Strong financial discipline and self-control are also fostered by understanding the significance of debt management and saving. (Rey-Ares et al., 2021).

Having a rational mindset when making decisions is another benefit of financial literacy. People who are well-versed in finance are less susceptible to the effect of uncontrollable consumer behaviour or social influences. They exhibit qualities like self-control and future orientation because they are more adept at differentiating between necessities and wants. (Lontchi et al., 2023). To put it another way, financial literacy enables people to manage their money more methodically and logically (Santini et al., 2019).

Conversely, poor financial literacy is frequently linked to unfavourable financial characteristics. People who don't know much about money are typically less disciplined, more impulsive, and don't have a clear financial plan. This is seen in a lack of savings, a tendency to incur debt without thinking things through, and an incapacity to handle financial crises. This illustrates how financial literacy affects a person's financial attitudes and behaviours in addition to their knowledge (Philippas & Avdoulas, 2020).

H3. Financial literacy has an impact on financial traits

Financial Literacy and Financial Well-Being

The knowledge, abilities, attitudes, and behaviours required to make wise financial decisions and enhance one's financial well-being are together referred to as financial literacy (Grohmann, 2018). Put differently, financial literacy encompasses both the comprehension of economic data and the application of that data in day-to-day decision-making. Everyone needs to be financially literate in order to prevent financial difficulties because people frequently have to give up one interest in favour of another. Investment decisions are influenced not only by financial knowledge but also by income and investment experience. Financial competence and well-being can be impacted by investment decisions (Colasante & Riccetti, 2021).

In general, financial literacy refers to the financial abilities and understanding that enable people to make wise decisions. (Mahendru et al., 2022). Financial well-being, on the other hand, is a condition in which a person feels safe and capable of handling their money both now and in the future. These two ideas are intimately linked: responsible financial behaviour is encouraged by sound financial literacy, which eventually enhances an individual's financial well-being. Therefore, a comprehensive understanding of these two concepts is crucial for research that addresses individual financial behavior and strategies for improving the quality of life in the community (Yano et al., 2024).

H4. Financial Literacy has an impact on Financial Well-Being

Financial Traits and Financial Well-Being

Based on their experiences and personality, a person's financial qualities are how they use solid financial management methods. One element that might affect how each person behaves when it comes to money is their financial characteristics. The application of activities in financial resource planning and management is known as financial traits, and it can reveal a person's financial management character (Hamurcu et al., 2025). A person's inclination for risk, self-control, future orientation, tolerance for uncertainty, and values for money (money attitudes) are examples of reasonably consistent personality characteristics that fall under the category of financial traits (Stolper & Walter, 2017). These characteristics are internal and emerge from early life as a result of cultural influences, social settings, family experiences, and unofficial financial education. Financial characteristics are the main basis that determines an individual's everyday financial behaviour because of their rather steady nature (Mutlu & Ozer, 2019).

Because they influence fundamental financial management thought processes, financial features are significant in the study of financial behaviour. In other words, some financial characteristics (such as impulsivity or lack of self-control) can prevent someone from achieving healthy financial behaviour even if they have a high level of financial knowledge (Moolman, 2022). As a result, the relationship between financial literacy, financial experience, and financial well-being is mediated by financial attributes. The empirical study, which was carried out in Argentina, found that while financial well-being is a state of financial well-being marked by a sense of security, control, and freedom in managing and planning finances, financial traits are psychological characteristics that influence how people think, feel, and act regarding finances (Rapina et al., 2023). These two ideas are intimately linked: a person's degree of financial well-being is ultimately determined by their financial behaviour, which is influenced by their financial qualities. In order to conduct financial behaviour research and create more successful financial education programs, it is essential to comprehend these two ideas. (Chaudhry et al., 2024).

H5. Financial Traits has an impact on Financial Well-Being

RESEARCH METHOD

This study uses an explanatory methodology and is quantitative in nature (Qadri, 2016). Because the study seeks to explain the causal relationship between the independent variables financial literacy,

financial behaviour, financial features, and financial well-being of MSMEs in the Special Region of Yogyakarta (DIY) this explanatory technique was selected.

This study used a cross-sectional design based on the time dimension, collecting data over a predetermined length of time. Because the study concentrates on the real financial health of MSMEs and the variables affecting it rather than monitoring behavioural shifts over time, this design is pertinent.

Because the findings are anticipated to have practical implications for local governments, financial institutions, and MSME facilitators in creating programs to enhance MSME financial literacy and well-being in the Special Region of Yogyakarta, this study is applied research.

A structured questionnaire served as the main tool in the survey approach. The survey approach was selected because it allowed for the systematic measurement of financial behaviour and psychological factors and reached a sizable number of respondents.

Yogyakarta City, Sleman Regency, Bantul, Kulon Progo, and Gunungkidul are the five administrative regions that make up the Special Region of Yogyakarta. The study's population consisted of Micro, Small, and Medium Enterprises (MSMEs).

The individual MSME owner that is, the owner or principal management directly involved in the financial decision-making of the company was the unit of study. The selection of individuals as the unit of study was predicated on the idea that the personal traits of MSMEs' managers have a substantial impact on their financial decisions and behaviour.

Purposive sampling, a non-probability sampling approach, was employed. This method was selected since not all MSMEs have traits that fit the goals of the study. The sample selection criteria for this study were as follows:

1. MSMEs reside and operate in the Special Region of Yogyakarta.
2. Businesses have been operating for at least one year, so respondents have sufficient experience in managing business finances.
3. Respondents are the owners or primary managers of the business.
4. Willing to complete the questionnaire in full.

The selection of 110 MSME respondents in the Special Region of Yogyakarta was based on several considerations. First, MSMEs in the Special Region of Yogyakarta were chosen because the region has a dynamic and rapidly growing MSME sector, particularly in trade, culinary, services, and creative industries, making it relevant for examining business and financial management practices. Second, the sample size of 110 respondents was considered adequate to represent the characteristics of MSMEs in the region and to support statistical analysis reliably.

The method of data analysis was taken into account when determining the sample size. The 10-times rule, which is ten times the maximum number of indicators that lead to a single construct, is the minimum sample size if the study employs Structural Equation Modeling–Partial Least Squares (SEM-PLS). The minimal sample size is 200 respondents with an anticipated number of indicators between 20 and 25 (Sekaran, 2016). This number is also considered adequate to empirically represent the condition of MSMEs in the Special Region of Yogyakarta. The variable measurements were carried out as follows:

- 1) Indicators of financial well-being include perceived financial stability, the capacity to fulfil business commitments, a sense of financial security, and the capacity to manage financial hazards (Philippas & Avdoulas, 2020).
- 2) Attitudes about financial risk, long-term orientation, expenditure control, and financial planning are examples of financial traits (Syrén et al., 2020).
- 3) Maintaining financial records, managing cash flow, saving, managing debt sensibly, and keeping personal and company finances apart are all examples of financial behaviour (Mireku et al., 2023).
- 4) The ability to successfully manage one's personal finances, including the capacity to comprehend fundamental financial ideas, make financial decisions, and apply them in daily life, is known as financial literacy (Grohmann, 2018).

With the aid of software like SmartPLS, the data analysis method utilised was Structural Equation Modelling Partial Least Squares (SEM-PLS), which was selected because it can analyse simultaneous relationships between latent variables, is appropriate for exploratory research, and does not require rigorous assumptions of data normalcy (Tjahjono, 2021).

RESULT AND DISCUSSION

Structural Equation Modelling Partial Least Squares (SEM-PLS), which can analyse simultaneous relationships between latent variables, is appropriate for exploratory research, and does not require strict assumptions of data normality, was the data analysis technique used with the help of software like SmartPLS.

Validity Test

Item analysis, which correlates each item's score with the variable score (the total of all question item scores), is the basis for validity testing. With a significance threshold of 0.05 or 5%, the correlation method makes use of Pearson Correlation. If a question item's computed r value is higher than the r table or $\text{sig} \leq 0.05$, it is deemed valid. The table displays the validity test results based on the computation

Table 1. Result Of Validity Test

Variable	Indicator	Value Pearson Correlation	Significance
Financial Literacy	Item FL1	,805	,000
	Item FL2	,827	,000
	Item FL3	,892	,000
	Item FL4	,867	,000
	Item FL5	,841	,000
	Item FL6	,809	,000
Financial Traits	Item FT ₁	,675	,000
	Item FT ₂	,860	,000
	Item FT ₃	,873	,000
	Item FT ₄	,856	,000
	Item FT ₅	,771	,000
Financial Behavior	Item FB ₁	,877	,000
	Item FB ₂	,895	,000
	Item FB ₃	,840	,000
	Item FB ₄	,779	,000
	Item FB ₅	,664	,000
	Item FB ₆	,877	,000
	Item FB ₇	,895	,000
Financial WellBeing	Item FW ₁	,800	,000
	Item FW ₂	,864	,000
	Item FW ₃	,690	,000
	Item FW ₄	,853	,000
	Item FW ₅	,775	,000
	Item FW ₆	,737	,000

Reliability Test

A person's constant or steady answers to queries over time are referred to as reliability. Answers from respondents are more trustworthy if the reliability coefficient is higher. The respondents' answers to the questionnaire as a measuring tool are deemed reliable if the Cronbach's Coefficient Alpha value is higher than 0.6. The table below displays the reliability test results:

Table 2. Reliability Test

Variable	Cronbach Alpha	Results
Financial Literacy	,915	Reliable

Financial Traits	,830	Reliable
Financial Behavior	,918	Reliable
Financial WellBeing	0.846	Reliable

Test Of Model Validity

The association between item scores and construct scores is used in validity testing for reflective indicators. If other indicators within a construct change (or are eliminated from the model), measurement using reflecting indicators shows changes in an indicator within a construct. To evaluate a research model's Model Fit, data processing methods utilising the Partial Least Squares (PLS)-based SEM approach necessitate two steps. These phases are as follows:

1) Test of Convergent Validity and Discriminant Validity

The correlation between item scores and component scores obtained with PLS software is used to evaluate the convergent validity of the measurement model with reflecting indicators. If a person's reflective measure correlates more than 0.70 with the construct being tested, it is deemed high. A loading value of 0.5 to 0.6 is deemed adequate for the preliminary research phase of creating a measurement scale. To make sure that every notion of every latent variable is different from other variables, discriminant validity is carried out. If every indication of a latent variable has the highest loading value compared to other loading values for other latent variables, the model has good discriminant validity. The results of data analysis processing to assess the outer model's Convergent Validity and Discriminant Validity can be seen in Table 3.

Table 3. *Convergent validity and Discriminant Validity*

	FB	FL	FT	FW
FB1	0.839	0.337	0.323	-0.406
FB2	0.91	0.337	0.492	-0.524
FB3	0.864	0.463	0.511	-0.571
FB4	0.806	0.482	0.508	-0.542
FB5	0.755	0.356	0.301	-0.344
FB6	0.839	0.337	0.323	-0.406
FB7	0.91	0.337	0.492	-0.524
FL1	0.368	0.784	0.296	-0.389
FL2	0.402	0.816	0.381	-0.487
FL3	0.415	0.896	0.374	-0.498
FL4	0.386	0.88	0.391	-0.493
FL5	0.369	0.842	0.348	-0.434
FL6	0.411	0.824	0.389	-0.499
FT1	0.836	0.392	0.791	-0.488
FT2	0.353	0.31	0.873	-0.665
FT3	0.338	0.282	0.887	-0.655
FT4	0.324	0.408	0.885	-0.713
FT5	0.327	0.341	0.803	-0.647
FW1	-0.442	-0.47	-0.578	0.797
FW2	-0.411	-0.496	-0.668	0.864
FW3	-0.574	-0.396	-0.613	0.779
FW4	-0.45	-0.473	-0.676	0.861
FW5	-0.43	-0.496	-0.705	0.863
FW6	-0.531	-0.34	-0.599	0.732

The outer model value or correlation between indicators and variables in the study has satisfied convergent validity, according to the results of data analysis processing to evaluate the outer model Convergent Validity. This is because all of the indicators have loading factor values above 0.60, and the loading factor value for each indicator of each latent variable has the largest loading factor value when compared to the loading factor value when connected with other latent variables. This indicates that the discriminant validity of each latent variable is good.

2) Test of Composite Reliability and Average Variance Extracted (AVE)

The Composite Reliability and Average Variance Extracted (AVE) scores of each concept additionally show validity and reliability requirements. If the AVE is greater than 0.50 and the composite reliability value is greater than 0.70, the construct is said to have good reliability. The Composite Reliability and AVE values for each variable are shown in Figure 4.

Table 4. Composite Reliability and Average Variance Extracted

	Cronbach's alpha	Composite reliability (rho a)	Composite reliability (rho c)	Average variance extracted (AVE)
FB	0.918	0.93	0.936	0.681

Table 4 indicates that every construct satisfies the dependability requirements. According to the criterion, composite reliability ratings over 0.70 and AVE values above 0.50 imply this.

Inner Model

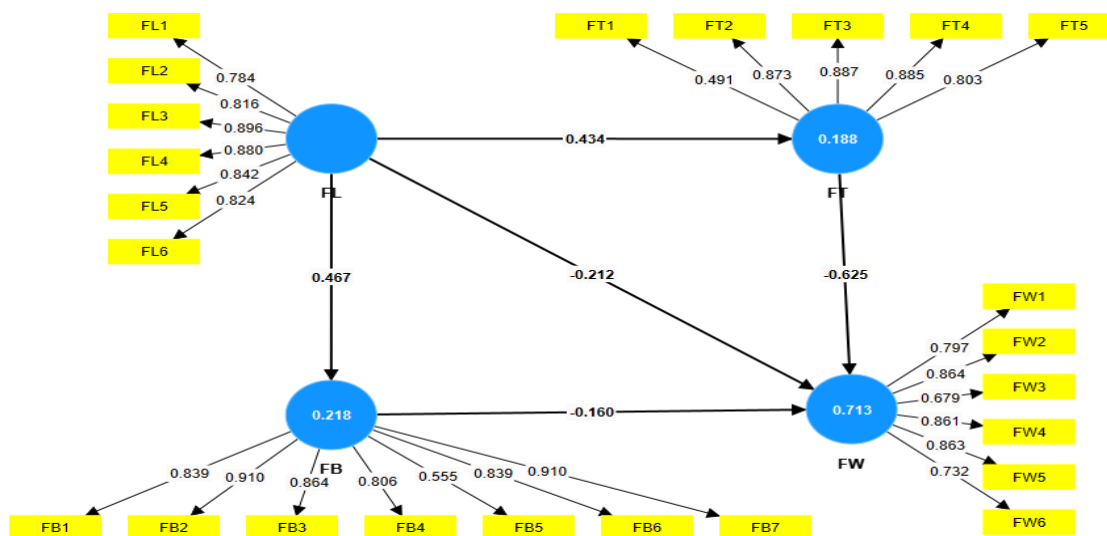


Figure 1. Structural Model

Regarding the connections between the research variables, the importance of the calculated parameters offers highly helpful information. The value found in the inner weight output result serves as the foundation for testing the hypotheses. The expected results for evaluating the structural model are shown in Table 5.

Table 5. Hypothes Testing

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
FB -> FW	-0.16	-0.16	0.065	2.461	0.014
FL -> FB	0.467	0.473	0.082	5.669	0.000
FL -> FT	0.434	0.441	0.081	5.326	0.000
FL -> FW	-0.212	-0.209	0.059	3.563	0.000
FT -> FW	-0.625	-0.629	0.088	7.120	0.000

1. Financial behaviour has an impact on financial well-being

The impact of financial behaviour on financial well-being has a path coefficient of -0.160, a t-value of 2.461, and a p-value of 0.014, according to the computation results displayed in the table. The t-table (1.6612) is less than this figure. This finding supports the first hypothesis, but in the opposite direction: financial behaviour has a substantial and detrimental impact on financial well-being. Financial behaviour has a negative and significant impact on financial well-being, meaning that a person's financial well-being tends to be lower the worse their financial behaviour is. Financial situations can be made worse by actions including high consumer debt usage, low savings habits, impulsive spending, and a lack of financial planning (Liu et al., 2024). People are more susceptible to financial stress and economic instability when they are unable to handle their income responsibly. These findings highlight the need of cultivating planned and disciplined

financial behaviour, since unhealthy behaviour might actually impede the long-term attainment of optimal financial well-being (Rey-Ares et al., 2021).

An intriguing discovery is the negative and significant link between financial behaviour and financial well-being (Lontchi et al., 2023), but runs counter to a lot of the literature. Generally speaking, sound financial practices including debt management, consistent saving, and budget management are anticipated to enhance financial well-being. However, there are a number of ways to explain these unfavourable outcomes. First, people who have high levels of financial anxiety typically exhibit good financial behaviour by being more diligent in their money management, but they still feel poorly. This indicates that these actions are not a sign of wellbeing but rather a reaction to financial pressures (Santini et al., 2019).

Second, even when people pursue relatively acceptable financial behaviours, they may nevertheless be in a condition of low financial well-being due to restricted income or external economic pressures. Financial behaviours are insufficient in this situation to compensate for scarce financial resources (Yano et al., 2024). Third, the study's findings could possibly be impacted by measurement bias or variations in respondents' assessments of financial well-being metrics. These results thus demonstrate that financial behaviour is not always directly correlated with financial well-being and that the research must take into account additional characteristics like income, employment security, and macroeconomic conditions (Philippas & Avdoulas, 2020).

2. Financial literacy has an impact on financial behavior

The impact of financial literacy on financial behaviour has a path coefficient value of 0.467 with a t-value of 5.669 and a p-value of 0.000, according to the computation results displayed in the table. The t-table (1.6612) is less than this figure. This finding supports the second hypothesis by indicating that financial behaviour is positively and significantly impacted by financial literacy. The capacity to comprehend financial concepts, including debt control, savings, investments, and income management, is known as financial literacy. A high degree of financial literacy will motivate people to make better planned and logical financial decisions (Grohmann, 2018). Consequently, a person's financial behaviour is positively and significantly impacted by financial literacy. Theoretically, a person's perspective and attitude toward money are shaped by their level of financial literacy. A person with a solid understanding of finance is typically able to create a budget, manage spending, and make long-term financial plans (Colasante & Riccetti, 2021). This is consistent with the theory of financial behaviour, which holds that attitudes are influenced by information, which in turn impacts behaviour. Put another way, greater financial behaviour is demonstrated by those with higher levels of financial literacy. In actuality, those with high financial literacy are able to refrain from excessive consumption behaviour, have investment habits, and are more consistent about saving (Mahendru et al., 2022). Additionally, they are able to balance the advantages and disadvantages of each financial choice and are more cautious when making credit judgements. On the other hand, people who lack financial literacy frequently struggle with money management, such as becoming mired in debt or lacking a clear financial strategy. Additionally, a number of empirical research demonstrate that financial behaviour is positively and significantly impacted by financial literacy. This implies that better financial behaviour will follow greater financial literacy. This highlights the value of financial education, particularly for the community and MSMEs, through formal education and training programs (Bottasso et al., 2022).

3. Financial literacy has an impact on financial traits

The influence of financial literacy on financial features has a path coefficient value of 0.434 with a t-value of 5.326 and a p-value of 0.000, according to the computation results displayed in the table. The t-table (1.6612) is less than this figure. This finding supports the third hypothesis by indicating that financial literacy significantly and favourably affects financial characteristics. Because a person's education and comprehension of financial ideas will form their character and perspective in managing funds, financial literacy has a positive

and significant impact on financial attributes. Understanding money management, financial planning, investing, and making logical decisions are all components of financial literacy (Xie et al., 2020). People who are very financially literate typically manage their money with greater discipline, responsibility, and caution. The term "financial traits" refers to a person's psychological and behavioural features when it comes to handling financial matters, including attitudes toward risk, saving behaviours, self-control in spending, and future-focused orientation. People that are financially literate will be more adept at managing their spending, have sophisticated financial planning skills, and have a propensity to regularly save and invest. This indicates that financial literacy contributes to the development of sound financial character in addition to acting as cognitive knowledge (Owusu et al., 2023).

Numerous empirical research demonstrating that greater financial literacy is followed by an improvement in the quality of financial attributes further indicate this beneficial and important impact. People who are aware of the advantages and disadvantages of any financial choice will behave more sensibly and be able to steer clear of risky financial practices. Additionally, financial literacy helps people become more confident while making financial decisions, which eventually strengthens sound financial character (Sajid et al., 2024). Thus, it can be said that developing sound financial characteristics depends heavily on financial literacy. In order to produce people who are not just financially astute but also have solid and long-lasting financial character, efforts to increase financial literacy via both formal education and community education initiatives are crucial (Korkmaz et al., 2021).

4. Financial Literacy has an impact on Financial Well-Being

The impact of financial literacy on financial well-being has a path coefficient of -0.212, a t-value of 3.563, and a p-value of 0.000, according to the computation results displayed in the table. The t-table (1.6612) is less than this figure. According to this finding, financial well-being is negatively and significantly impacted by financial literacy, which is consistent with the fourth hypothesis but in the other way. Although it may appear paradoxical, there are a number of theoretical and empirical explanations for the finding that financial literacy significantly and negatively affects financial well-being. High financial literacy does not always translate into better financial well-being, according to behavioural finance research, since greater information might actually raise awareness of risk, uncertainty, and possible losses in money management (Shah et al., 2024).

Psychologically, those who are very financially literate are more likely to be critical of their financial situation. They comprehend ideas like long-term planning, debt, investments, and inflation better (Abdul Razak & Asutay, 2022). However, when their projected ideal standards are not met by the reality they encounter, this awareness may result in financial worry. When it comes to financial well-being, subjective assessments of financial security and contentment are just as important as objective circumstances (Fu, 2020).

Furthermore, there may be a gap between knowledge and action if high financial literacy is not accompanied by sound behavioural skills. People may be aware of the best financial practices, but they may not be able to consistently put them into practice because of societal pressure, low income, or purchasing habits. This eventually lowers financial well-being by causing cognitive dissonance, which is a mismatch between what is understood and what is done. High financial literacy can also increase people's awareness of their limited access to financial resources, such as formal lending or investment tools, in the context of MSMEs or low-income areas (Okello Candiya Bongomin et al., 2020). This knowledge may exacerbate feelings of financial insufficiency, which could have a detrimental effect on financial wellbeing. Therefore, this inverse link shows that improving financial well-being requires more than just financial understanding. For literacy to genuinely improve personal well-being, knowledge, attitudes, and adaptive financial behaviour must be integrated (Mir & Bushra, 2024).

5. Financial Traits has an impact on Financial Well-Being

The impact of financial characteristics on financial well-being has a path coefficient of -0.625, a t-value of 7.120, and a p-value of 0.000, according to the computation results displayed in the table. The t-table (1.6612) is less than this figure. This finding supports the

fifth hypothesis, but in the other direction, by showing that financial characteristics have a negative and substantial impact on financial well-being. Financial well-being can be negatively and significantly impacted by financial features that represent a person's psychological characteristics in managing finances, such as impulsivity, a preference for current spending, inadequate self-control, and a predisposition to take unmeasured risks (Rapina et al., 2023). From a conceptual standpoint, financial well-being is the state in which a person can fulfil their present financial demands, feels confident about the future, and has the autonomy to make decisions in life (Mutlu & Ozer, 2019). However, a person's capacity to attain financial well-being would be hampered if they have less adaptive financial characteristics, such as consumptive behaviour and a lack of discipline in financial planning (Hamurcu et al., 2025).

Inadequate financial management practices can account for this detrimental impact. Impulsive people frequently make impulsive purchases, which leads to ineffective income distribution. Additionally, bad investing and saving practices are a result of lack self-control (Stolper & Walter, 2017). Long-term effects of this syndrome include unstable finances, higher debt risk, and inadequate emergency readiness. This immediately lowers one's financial well-being (Moolman, 2022).

Numerous empirical research demonstrated a strong correlation between poor financial well-being and bad financial characteristics. This implies that the degree of financial well-being attained decreases with the prevalence of negative qualities in an individual (Rapina et al., 2023). This highlights how crucial it is to cultivate positive financial character traits like self-control, discipline, and long-term orientation. Financial characteristics are therefore significant drivers of an individual's financial well-being in addition to being psychological elements. The development of better, more deliberate financial habits and character must go hand in hand with initiatives to increase financial well-being (Chaudhry et al., 2024).

CONCLUSION

Main Findings

The study reveals several important findings regarding the financial conditions of MSMEs. First, financial behaviour was found to have a negative effect on financial well-being, indicating that inappropriate or excessive financial practices may reduce the financial stability of MSME owners. Second, financial literacy positively influences both financial behaviour and financial traits, showing that increased financial knowledge contributes to improved financial awareness and decision-making patterns. However, financial literacy and financial traits were also found to negatively affect financial well-being, suggesting that higher financial knowledge and stronger financial confidence do not automatically guarantee better financial outcomes. In some cases, they may encourage overconfidence, risky financial decisions, or ineffective financial management practices among MSME actors.

Theoretical Contributions

This study contributes to the development of financial management and behavioural finance literature by providing empirical evidence on the complex relationship between financial literacy, financial behaviour, financial traits, and financial well-being in the MSME context. The findings enrich behavioural finance theory by demonstrating that financial literacy may produce contradictory outcomes when not accompanied by prudent financial decision-making. Furthermore, this research broadens the understanding of MSME financial well-being in developing economies, particularly in the Indonesian context, where financial capability and business sustainability remain significant challenges.

Practical Contributions

Practically, the study offers important implications for MSME owners, policymakers, financial institutions, and business development agencies. MSMEs are encouraged to improve not only their financial knowledge but also the quality of their financial practices, including budgeting, debt management, savings allocation, and long-term financial planning. Government institutions and financial education providers should design more practical and behaviour-oriented financial literacy programs that emphasize responsible financial decision-making rather than merely increasing theoretical knowledge. Financial assistance and mentoring programs should also integrate

psychological and behavioural aspects to reduce impulsive or high-risk financial behaviour among MSME owners.

Research Limitations

This study has several limitations. First, the research employed a cross-sectional design, which limits the ability to observe changes in financial behaviour and financial well-being over time. Second, the study was conducted within a limited geographic area and specific sample of MSMEs, reducing the generalizability of the findings to broader populations. Third, the use of self-reported questionnaires may have introduced response bias, as respondents' perceptions and honesty during questionnaire completion could affect the accuracy of the data. In addition, the study did not include external factors such as income level, business performance, access to financial services, or psychological conditions that may influence financial well-being.

Recommendations for Future Studies

Future research is recommended to incorporate moderating or mediating variables such as income level, financial inclusion, digital financial access, business sustainability, self-control, financial stress, and psychological factors to better explain the negative relationship identified in this study. Researchers are also encouraged to employ longitudinal approaches to capture the dynamic changes in financial behaviour and financial well-being over time. Expanding the research area and sample size across different sectors and regions would improve the generalizability of the findings. Moreover, qualitative or mixed-method approaches could provide deeper insights into the underlying reasons behind MSME financial decision-making and behavioural patterns.

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