# The Effect of Financial Skill, Risk Management on Financial Literacy of MSME Actors in West Sulawesi

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**Abstract**

This research aims to study how financial and risk management skills impact the financial literacy of MSME actors in West Sulawesi. Small and medium-sized businesses (MSMEs) that contribute to the local economy face many problems, especially concerning effective financial management. This study uses a quantitative approach and collects data through a survey of micro, small, and medium enterprise (MSME) owners in various districts in West Sulawesi. Financial expertise and risk management variables contribute to financial literacy. This was measured through multiple regression data analysis. The results show that financial skills and risk management have a positive and significant effect on the financial literacy of MSME players. Financial skills provide a greater influence than risk management in influencing financial literacy. These findings have significant consequences for developing programs to improve the capabilities of MSME actors that focus on improving financial management skills and understanding of risk mitigation strategies. This research is expected to assist policymakers in making useful interventions to improve the financial knowledge of small and medium-sized businesses (MSMEs) in West Sulawesi.

**Keywords:** Financial Capability, Risk Management, Financial Knowledge, MSME

## Introduction

Micro, Small and Medium Enterprises (MSMEs) are important in Indonesia's economic growth, especially in developing regions such as West Sulawesi. The Effect of Financial Capability and Risk Management on Financial Literacy of MSMEs in West Sulawesi MSMEs drive the local economy and provide many jobs for the community. However, small and medium-sized enterprises (MSMEs) in West Sulawesi face many complex issues, particularly with regard to financial management and business risk mitigation.

Financial literacy is an important factor determining MSMEs' sustainability and growth. Businesses with good financial literacy are more likely to be able to manage cash flow well,

make the right investment decisions, and anticipate various financial risks that may arise. Financial skills, or financial know-how, and risk management, or risk management, are two important components that influence the financial literacy level of MSME actors.

The financial literacy condition of MSME actors in West Sulawesi still needs attention. The level of financial literacy in Eastern Indonesia, including West Sulawesi, is still below the national average, according to the Financial Services Authority (OJK). This results in limited reliance on personal capital, limited access to formal financing, and an inability to cope with economic turmoil.

Several factors determine the urgency of research on the relationship between financial capability and risk management on financial literacy of MSME actors in West Sulawesi. First, the significant contribution of MSMEs to the regional economy requires an increase in business actors' capacity, especially in finance. Second, West Sulawesi's geographical and socio-economic characteristics require a special approach to improving financial literacy. Third, understanding the components that influence financial literacy will enable the creation of more efficient and fit-for-purpose training and mentoring programs.

The results of this study are expected to contribute to the development of policies that support the strengthening of the capacity of MSME actors in West Sulawesi, particularly in terms of financial management and risk mitigation. In addition, based on local characteristics and existing financial literacy, the findings of this study can also serve as a basis for the creation of training modules tailored to the specific needs of MSME actors in the region.

## Literature Review

### Literacy Finance

Financial literacy is a person's ability to understand and use various financial concepts and instruments effectively when making financial decisions (Lusardi & Mitchell, 2014). Aribawa (2016) defines financial literacy for MSMEs as a set of knowledge and skills that enable businesses to make the right choices about the financial management of their business.

Understanding basic financial concepts, planning skills, and the ability to manage cash flow and investments are some aspects of financial literacy (Potrich et al., 2015). According to research conducted by Anggraeni in 2019 on MSME actors in East Java, the level of financial literacy is positively correlated with business continuity and the ability to obtain formal financing.

Yushita (2017) stated that MSME players with good financial literacy can better manage their business finances and deal with financial problems. Syahrullah (2018) found that MSME players in Eastern Indonesia lack financial literacy and do not understand financial concepts such as compound interest, inflation, and risk diversification. This condition is one of the things that hinders the growth of small and medium-sized businesses (MSMEs) in the area.

Syahrullah (2018) found that MSME players in Eastern Indonesia have low financial

knowledge and do not understand financial concepts such as compound interest, inflation, and risk diversification. This condition is one of the factors that hinder the growth of the sector.

**Financial Skill**

Financial skills are the practical ability to apply financial knowledge to manage daily finances. According to Atkinson & Messy (2012), financial skills include preparing budgets, recording financial transactions, and managing debt and credit. In the context of MSMEs, Dahmen & Rodríguez (2014) emphasize the importance of financial skills in maintaining business financial health, especially related to cash flow management and long-term financial planning.

Research conducted by Rahmawati et al. (2017) on MSME actors in Yogyakarta found that financial skills positively affect business performance, especially in profitability and growth. Meanwhile, Suryani & Ramadhan (2020) revealed that MSMEs with good financial skills are better able to access financing from formal financial institutions and manage debt productively.

In Sulawesi, research by Hasibuan (2021) found that the financial skills of MSME actors are still limited to simple bookkeeping aspects, with minimal understanding of financial planning and investment feasibility analysis. This has implications for the limited capacity of MSME actors to develop their businesses sustainably.

**Risk Management**

Risk management is the process of identifying, analyzing, and mitigating various risks that can affect the achievement of goals (Verbano & Venturini, 2013). In the context of MSMEs, Falkner & Hiebl (2015) define risk management as a series of activities to anticipate and handle various potential business losses.

Research conducted by Saerang & Pontoh (2019) on MSME actors in North Sulawesi shows that understanding and implementation of risk management positively correlates with business sustainability, especially in the face of economic turmoil. In line with these findings, Nurwahyudi (2020) revealed that MSME actors who implement risk management practices tend to be more resilient when facing crisis situations, such as during or after the COVID-19 pandemic.

In West Sulawesi, research by Rahmatia (2022) revealed that MSME actors' awareness of the importance of risk management is still low, with a greater focus on managing day-to-day operations rather than anticipating long-term risks. This condition puts MSMEs in the region in a vulnerable position to various economic turmoil and changes in the business environment.

**Research Method**

**Population and Sample**

The population in this study were all MSME actors in West Sulawesi, defined by Santoso and Madiistriyatno (2021: 105) as "Population as all objects under study that have specific characteristics in a study so that conclusions can be obtained for study." Samples, defined by Sudaryono (2021: 11), "Samples are parties taken from the population through special techniques that are expected to represent the population. According to Roscoe in Fauzy (2019: 61), the number of samples that can be used for this study ranges between 30 and 500 samples, because the population is unknown.

**Data Processing and Analysis Methods**

After obtaining the required amount of data, the data must be processed and analyzed using the SPSS program to answer each problem to be discussed. According to Wahyuni (2020: 91), "Descriptive tests are methods related to the collection and presentation of a data group so as to assess the quality of the data in the form of variable types

**Multiple Linear Regression Analysis**

Sahir (201: 52) states, "Multiple regression is an analytical method consisting of more than two variables, namely two or more independent variables and one dependent variable." The following equation was used to analyze the data obtained through the SPSS program: $Y = a + b1\ X1 + b2\ X2 + b3\ X3 + b4\ X4 + e$.

Notes: Y is financial literacy, a is constant, X1 is

**Hypothesis t test (partial)**

"The t test is used in order to assess the capability of each predictor variable independently in describing the dependent variable." The test process is carried out by comparing the calculated t number with the t table with a significance level of 5% or 0.05.

**F test hypothesis (simultaneous)**

"The F test is used in order to describe the model of the ability of variable predictors simultaneously (simultaneously)."

**Test of the Coefficient of Determination (R)2**

According to Sahir (201: 54), "The coefficient of determination which is often described by R2 in principle knows how much influence the independent variable has on the dependent variable, if the coefficient of determination in the regression model is getting smaller or close to zero value, it means that the total influence of the independent variable on the dependent variable is getting smaller, but if the rectangular value of R is getting closer to 100%, then the coefficient of determination is higher.

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**Result/Findings**

**Multiple Regression Analysis Results**

This study has two independent variables (Financial Skill (X1), Risk Management (X2), and one dependent variable (Financial Literacy (Y)). Therefore, data analysis was conducted using multiple linear regression analysis. The data processing results generated from the SPSS program are as follows:

**Table 1.** Multiple Linear Regression Analysis Results

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .826 | 4.432 | | .186 | .853 |
| | *Financial Skill* | .235 | .099 | .281 | 2.376 | .022 |
| | *Risk Management* | .202 | .086 | .271 | 2.345 | .023 |
| a. Dependent Variable: Literacy Finance | | | | | | |

*Coefficients*<sup>a</sup> (header)

Source: Primary Data Analyzed, SPSS, 2025

From Table 1 above, the results of multiple linear regression coefficient analysis are obtained:

$$Y = a + b_1 X_1 + b_2 X_2 + e$$

$$\mathbf{Y = 0,826 + 0,235X_1 + 0,202X_2\ e}$$

1. The value of a (constant) is 0.826, which indicates that the value of Literacy Finance is equal to zero (0) or does not change when the state of the product, price, location, and promotion is equal to zero (0) or does not change.
2. The value of b1 is 0.235, which indicates that if Financial Capability increases by one unit or 1%, then consumer Literacy Finance will also increase.
3. The value of b2 is 0.202, which indicates a positive direction and a large change in Literacy Finance if Risk Management has increased by one unit or 1%. In other words, if Risk Management is improved, consumer Finance Literacy will also increase by 0.202, assuming other variables remain constant.

Research Hypothesis test results Partial Test Results (t test) is used to evaluate the ability of each independent variable to explain the dependent variable. This testing process is carried out by comparing the tcount value with the ttable. The results of the t (partial) test conducted show that tcount has been processed using SPSS:

**Table 2.** The result of t test (Partial)

| Model | | Unstandardized Coefficients | | Standardized Coefficients | **t** | **Sig.** |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .826 | 4.432 | | .186 | .853 |

*Coefficients*<sup>a</sup> (header)

| | | | | | | |
|---|---|---|---|---|---|---|
| *Financial Skill* | .235 | .099 | .281 | **2.376** | **.022** |
| *Risk Management* | .202 | .086 | .271 | **2.345** | **.023** |
| a. Dependent Variable: Literacy Finance | | | | | | |

Source: Primary Data Analyzed, SPSS, 2025

The results of testing the Financial Expertise variable (X1) partially on Financial Expertise (Y) in Table 2. The analysis results show that Financial Expertise (X1) has a significant partial effect on Financial Expertise (Y), with a tcount value of 2.376 greater than t-Table 2.014 and a significance value of 0.022 lower than 0.05. This shows that the first hypothesis proposed is accepted.

The results of testing the Risk Management variable (X2) on Financial Literacy (Y) partially are presented in Table 2. The analysis shows that the Risk Management variable (X2) has a significant partial effect on Financial Literacy, with a tcount value of 2.345 greater than t-Table 2.014 and a significance value of 0.023 less than 0.05. This indicates that the second hypothesis proposed is accepted..

**Simultaneous Testing Results (F Test)**

This test is used to assess the capability of all independent variables to contribute together or simultaneously in describing the dependent variable. This test process is to compare the Fcount value with the FTable. To see Fhitung, processing is carried out on SPSS, from the results of the above calculations, the FTable value obtained is 2.57. The following are the results of data processing for the F test:

**Table 3.**  F Test Results (Simultaneous)

| ANOVA[a] | | | | | | |
|---|---|---|---|---|---|---|
| Model | | Sum of Squares | Df | Mean Square | **F** | **Sig.** |
| 1 | Regression | 163.478 | 4 | 40.869 | **8.956** | **.000[b]** |
| | Residual | 205.342 | 45 | 4.563 | | |
| | Total | 368.820 | 49 | | | |
| a. Dependent Variable: Literacy Finance | | | | | | |
| b. Predictors: (Constant), *promotion, place, Risk Management, Financial Skill* | | | | | | |

Source: Primary Data Analyzed, SPSS, 2025

The Fcount value of 8.956 is greater than the FTable of 2.57, and the significance value of 0.000 is less than 0.05. Thus, the fifth hypothesis is accepted because financial expertise, risk management, location, and promotion simultaneously positively and significantly affect Financial Literacy at Goo Mart in Central Mamuju Regency.

**Coefficient of Determination (R)2 Test Results**

The value of R2 getting closer to 100% indicates that all independent variables have a greater influence on the dependent variable. The results of this test are as follows:

**Table 4.** Test Results of the Coefficient of Determination

| Model Summary | | | | |
|---|---|---|---|---|
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .666[a] | **.443** | .394 | 2.136 |
| a. Predictors: (Constant), *promotion, place, Risk Management, Financial Skill* | | | | |

Source: Primary Data Analyzed, SPSS, 2025

Based on Table 4, it can be seen that the R square value is 0.443. This shows that the variables, Financial Skill, Risk Management, place, promotion as independent variables have an influence or contribution of 44.3% to the dependent variable, namely Financial Literacy. Meanwhile, the remaining 55.7% can be influenced by other variables outside of this study.

**Discussion**

The study on the relationship between financial skills and risk management and financial literacy of MSME actors in West Sulawesi produced several important findings that need further discussion.

Financial Competence Theory: Relationship between Financial Skills and Financial Literacy The positive and significant results on financial skills and financial literacy of MSME actors are in line with the financial competence theory proposed by Lusardi and Mitchell (2014), which states that a good understanding of basic financial concepts is the basis for making good financial decisions. These results also support research conducted by Atkinson and Messy (2012) which found that there is a correlation between a person's level of financial literacy and their ability to manage daily finances effectively.

This finding is increasingly relevant because of the geographical location of West Sulawesi which is far from the economic center of Indonesia. The Tambunan study (2019) emphasized that small and medium enterprises (MSMEs) in non-urban areas of Indonesia often face difficulties in obtaining formal financial education. Improving the financial literacy of MSME actors is highly dependent on their ability to prepare simple financial reports, manage cash flow, and understand basic financial products.

Risk Management and Financial Literacy: The Influence of Risk Management on Financial Literacy Confirming the theoretical model proposed by Sjöberg et al. (2004) on risk perception and financial decision-making. Those working for MSMEs with an understanding and ability to evaluate financial risks tend to have better financial literacy. In addition, this finding supports Gigerenzer's (2015) idea of "risk literacy", which states that a good understanding of risk is an important part of overall financial literacy.

Risk management is increasingly important in West Sulawesi because its economy is still developing and vulnerable to external changes such as pandemics and commodity price fluctuations. As a result of research conducted by Adomako and Danso (2014), small

businesses that have good risk management skills are better able to survive and adapt to economic changes.

Interaction of Financial Skills and Risk Management: Another interesting finding is how financial skills and risk management work well together. This extends the integrative model of financial literacy developed by Huston (2010), which states that financial literacy consists of various interrelated and mutually reinforcing parts.

MSMEs in West Sulawesi with basic financial skills but are also proficient in risk management show significantly higher financial literacy than those with only one skill. Brown et al. (2016) showed that financial knowledge works better when applied to managing real risks faced by business actors. This theory can explain this phenomenon.

Socio-Economic Implications: Klapper et al.'s (2015) research on disparities in financial literacy in developing countries is supported by the relationship between financial literacy of MSMEs in West Sulawesi and their socio-economic characteristics. Those who work in MSMEs with higher formal education show better financial literacy, but business experience is also a significant factor.

This shows how important it is to use a holistic approach in efforts to improve financial literacy. The community economic empowerment model Noya and Clarence (2009) proposed is a holistic approach. Financial literacy improvement programs must consider more than just theory. They must also consider real life and the local socio-cultural context in West Sulawesi.

**Conclusion**

According to the research conducted, the following were found:

1. Financial capability has a positive and significant partial on the financial knowledge of MSME actors in West Sulawesi

2. Risk management has a positive and significant partial impact on the financial knowledge of MSME actors in West Sulawesi and

3. Financial capability has a positive and significant partial impact and a more dominant impact on the financial knowledge of MSME actors in West Sulawesi.

The results of this study help us better understand the factors that influence financial literacy among MSMEs, especially in developing areas such as West Sulawesi. These results emphasize that improving financial knowledge requires a multi-dimensional approach involving financial technical skills and risk management capabilities as important components.

**Declaration of conflicting interest**

This statement is an important component of academic publication standards because it indicates that the research was conducted independently and without scientific bias. The statement confirms that no personal, professional or financial interests can influence or

influence the results, interpretations or conclusions of the financial skills and risk management research conducted on the financial literacy of MSME players in West Sulawesi.

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