

Financial Satisfaction Increase:

Effect of Income and Financial Literacy Factors (Study of MSMEs)

Dany Fajar Nugraha*, Indra Mulia Pratama

Departemen Pendidikan Ekonomi, Sekolah Pascasarjana
Universitas Pendidikan Indonesia
Bandung, Indonesia
*dany.nugraha@upi.edu

Memen Kustiawan

Departemen Pendidikan Akuntansi, FPEB
Universitas Pendidikan Indonesia
Bandung, Indonesia

Abstract—Micro, Small and Medium Enterprises (MSMEs) will be an economic milestone in Indonesia. But in the midst of the current era of development, Indonesian MSMEs have not been able to maximize opportunities and potential in developing their business. South Solok Regency is an expansion area with thousands of MSMEs, but they still need mentoring and financing. Therefore, MSMEs need financial literacy to manage their business, in hopes of increasing income thus increasing financial satisfaction. The survey results show out of 60 MSMEs players 80% have income above IDR 5,000,000, and 62% have sufficient to a high category in financial literacy. From the test results, it can be concluded that income and financial literacy have a significant effect on financial satisfaction.

Keywords—*income; financial literacy; financial satisfaction*

I. INTRODUCTION

Financial satisfaction is an overall component of life satisfaction and welfare [1]. That one's psychological well-being relates to financial satisfaction.

Financial satisfaction is a situation regarding the level of satisfaction with the condition of personal finance [2]. Financial satisfaction is a constructive part of the general welfare [3]. Material and non-material on aspects of financial satisfaction [4]. Similarly, financial satisfaction includes satisfaction with a material and non-material [5]. Financial satisfaction illustrates the difference between one's desires with his real financial situation. Someone who earns enough to make ends meet monthly, may feel satisfied with his financial condition [6].

The results of a survey conducted by Manulife Index Investor Sentiment (Manulife Indonesia 2016) found evidence that Indonesians are consumer society; they do not have a clear long-term strategy. They do not manage their daily expenses effectively and have no clear financial goals. This is indicated by the results of the survey which found several things, namely: (1) 70% of Indonesian people do not have a long-term target for savings, (2) 53% of the sample consumes 70% of income per month for consumption, and (3) 40% of the people do not monitor their expenses at all.

Financial literacy is interpreted as the ability to manage personal finance [7]. Competencies relating to financial literacy includes reading, analyzing, managing, and communicating

financial condition to manage finances [8]. Financial literacy is a positive behavior in determining decisions due to financial knowledge that can determine the level of satisfaction financial.

Income is the total amount of real income of the whole family members which is used to meet mutual as well as individual needs in the family [9]. The results of the research that the household financial position is a determining factor of overall life satisfaction and financial welfare [10].

II. RESEARCH METHODS

Based on the objectives stated above, to see the effect of financial literacy factors and income on financial satisfaction in Micro, Small and Medium Enterprises (UMKM) in South Solok Regency. This research uses descriptive survey methods. The object of research is MSMEs in South Solok Regency. The sample in the study was taken with a simple random sampling technique with 60 SMEs. Data was collected through direct questionnaires which were distributed directly to MSME players.

Each item in the questionnaire refers to the variables measured using the Likert scale, where each number has meaning stratification. Evaluate the inner model, seeing the value of R-squares. The greater the value of R-squares, the greater the influence of the variable independent of the dependent variable. Test the Hypothesis Test t to determine the significance of each independent variable on the dependent variable. The value of t table is 1.96 because α used by 5%, with testing criteria: H0 accepted and Ha rejected if statistic < 1.96 . The research hypothesis is:

Hypothesis 1:

H0: $\beta_1 = 0$, income does not affect financial satisfaction.
H1: $\beta_1 \neq 0$, income has an effect on financial satisfaction.

Hypothesis 2:

H0: $\beta_2 = 0$, financial literacy does not affect financial satisfaction.
H2: $\beta_2 \neq 0$, financial literacy affects financial satisfaction.

III. RESULTS AND DISCUSSION

The number of final respondents who filled out the complete questionnaire for this study were 60 SMEs in South Solok Regency. Most of the respondents of this study are women with the highest age range of respondents 28-40 years.

TABLE I. INCOME

Income (Rupiah)	Frequency
< 5.000.000	12
5.000.000 – 6.500.000	18
6.500.000 – 8.000.000	15
8.000.000 – 10.000.000	10
> 10.000.000	5
Total Respondents	60

Based on Table 1, most respondents have a monthly income of IDR 5.000.000 to IDR 10.000.000. This shows that most of the MSME players have above average economic capabilities.

TABLE II. FINANCIAL LITERACY

Level of Financial Literacy	Frequency
Very Low	5
Low	18
Adequate	22
High	13
Very high	2
Total Respondents	60

Based on table 2, most respondents have high financial literacy. For entrepreneurs, financial literacy in this category is very risky for the continuity of their business. The inner model evaluation is carried out by looking at the R-square of each endogenous latent variable. The R-square value in this study was obtained at 0.75965 or 75.965%. This indicates that income and financial literacy affect the dependent variable, i.e. financial satisfaction of 75.965%.

The test criteria are to accept H₀ and reject H_a if the t statistic <t table. The value of t table is 1.96 because α is used at 5%.

TABLE III. VALUE OF T-STATISTIC

Effect	t Statistic	t value ($\alpha=5\%$)	Note
Income → Financial Satisfaction	7,356278	1,96	Reject H ₀ , Accept H _a
Financial Literacy → Financial Satisfaction	3,112737	1,96	Reject H ₀ , Accept H _a

Based on the data in table 3, the results of the hypothesis test t indicate that income and financial literacy affect financial satisfaction. In the table, it can be seen that the statistical T number of income affects the financial satisfaction of 7.3562. This shows that, for every increase of one unit of income, financial satisfaction will increase by 7.3562. In addition, a positive T number indicates that income has a positive effect on financial satisfaction. The results of this hypothesis correspond to the results of research from Sarah Brown and

Daniel Gray, as well as research from Delaney, Newman, and Nolan, who found that income had a significant effect on financial satisfaction [10,11]. This shows that the financial position of MSME players is a determinant of the overall life satisfaction and financial well-being. The higher the income, the more consumption to fulfill personal desires, therefore the higher the financial satisfaction [11].

In table 3, it can be seen that the T statistic of financial literacy which affects financial satisfaction is 3.1127. This shows that every increase in financial literacy in one unit then financial satisfaction will increase by 3.1127. In addition, a positive T statistic shows that financial literacy has a positive effect on financial satisfaction. The results of this study are in accordance with the results of previous studies from Sabri which found that financial literacy had a significant effect on financial satisfaction [12].

Financial literacy increases financial satisfaction [12]. Based on the data obtained in this study, most MSME players have financial literacy in the low and quite high category. The high financial literacy shows that MSME players have general financial knowledge, knowledge about saving and loan (credit), and knowledge regarding insurance and investment which is quite good. The knowledge possessed by MSME players can be used to make good financial decisions and have a good impact on the financial condition of MSME players, so that the financial satisfaction of MSME players are higher.

IV. CONCLUSIONS AND SUGGESTIONS

Income has a significant effect on financial satisfaction. Financial literacy has a significant effect on financial satisfaction.

For MSME players, they should further improve financial literacy to improve business and increase financial satisfaction. Regional governments should pay more attention to MSME players and provide training to improve financial literacy for businesses to further increase the number of MSME players in the regions and maintain so that there is no early collapse of new business players.

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