The Relationship between Financial Literacy, Rational Financing Decision, and Financial Performance: An Empirical Study of Small and Medium Enterprises in Makassar

(Hubungan antara Literasi Kewangan, Keputusan Pembiayaan Rasional dan Prestasi Kewangan: Kajian Empirikal Perusahaan Kecil dan Sederhana di Makassar)

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ABSTRACT

This research analyzes the effect of Financial Literacy, Rational Financing Decision, Financial Capital, and SME Financial Performance. A survey approach is used for data collection from a sample of financed SMEs in Makassar City. Using the cluster method technique and stratified random sampling, 279 samples are obtained and analyzed with Structural Equation Modeling with the AMOS Software. The results show that Financial Literacy significantly affects Rational Financing Decision and Financial Capital. Rational Financing Decision significantly affects Financial Capital. Furthermore, Financial Literacy and Capital significantly affects performance. Moreover, Rational Financing Decision does not significantly affect Financial Performance. The study shows that Financial Capital is not a Moderator variable in explaining the relationship between Financial Literacy and Rational Financing Decision with Financial Performance. This research implies that financial institutions should be careful in providing loans to SMEs.

Keywords: Financial literacy; rational financing decision; financial capital; financial performance.

ABSTRAK

Kajian ini bertujuan untuk menganalisis kesan Literasi Kewangan, Keputusan Pembiayaan Rasional, Modal Kewangan dan Prestasi Kewangan Perusahaan Kecil dan Sederhana. Pengumpulan data dilakukan dengan menggunakan pendekatan tinjauan. Sampel penyelidikan ini adalah Perusahaan Kecil dan Sederhana yang telah mendapat pembiayaan dari Institusi Kewangan di Kota Makassar. Dengan menggunakan teknik kaedah kluster dan pensampelan rawak berstrata, 279 sampel diperoleh untuk dianalisis menggunakan Pemodelan Persamaan Struktural dengan Perisian AMOS 23. Hasil kajian membuktikan bahawa Literasi Kewangan mempengaruhi Keputusan Pembiayaan Rasional, Literasi Kewangan secara signifikan mempengaruhi Modal Kewangan, Keputusan Pembiayaan Rasional mempengaruhi Modal Kewangan secara signifikan. Literasi Kewangan secara signifikan mempengaruhi Prestasi Kewangan PKS, dan Modal Kewangan mempunyai pengaruh yang signifikan terhadap Prestasi Kewangan Perusahaan Kecil dan Sederhana. Penemuan lain adalah bahawa Keputusan Pembiayaan Rasional tidak banyak mempengaruhi Prestasi Kewangan Perusahaan Kecil dan Sederhana, dan Modal Kewangan bukanlah pemboleh ubah Moderator dalam menjelaskan hubungan Literasi Kewangan dengan Prestasi Kewangan Perusahaan Kecil dan Sederhana dan Keputusan Pembiayaan Rasional terhadap Prestasi Kewangan Perusahaan Kecil dan Sederhana. Implikasi dari penyelidikan ini adalah bahawa institusi kewangan harus berhati-hati dalam memberikan pinjaman kepada Perusahaan Kecil dan Sederhana.

Kata kunci: Literasi Kewangan; Keputusan Pembiayaan Rasional; Modal Kewangan; Prestasi Kewangan

INTRODUCTION

SMEs play an essential role in job creation, poverty alleviation, and economic growth, though they face challenges in funding (Gherghina et al. 2020). The main problems experienced include lack of financial resources, econology, skilled labor, market access and information markets, high transaction costs, and lack of established business networks, entrepreneurial enthusiasm, business capacity, and knowledge (Yoshino & Taghizadeh-Hesary 2016). However, financial issues such as initial capital, access to working capital, and investment pose the main challenges (Indonesian Banking Development Institute 2015). Many SMEs in Indonesia are not bankable

(International Labour Office 2019). Therefore, their business mindset needs to be changed by implementing detailed planning, product diversification, quality employees, good marketing, and sound processes (International Labour Office 2019).

Access to credit is crucial for the SMEs' growth, though it is rarely achieved (Domeher, Musah & Hasan 2017). In most cases, owners seek additional working capital from family and friends or use their savings (Oladele, Oloowokere & Akinruwa 2014; Rossi 2014). This research discusses a performance improvement model, focusing on financial literacy for SMEs in Makassar City.

Economic growth in Makassar city tends to increase every year, even at a higher rate compared to the provincial and national levels. Specifically, the growth level was 7.39(2014), 7.55(2015), 8.03(2016), 8.23(2017), 8.4(2018), and 8.4(2019) (Bank Indonesia 2019). The SME sector significantly contributes to this growth, although it is not directly related to other economic variables. The superiority of SMEs in developing their businesses in Makassar city relies on the ability of internal resources, such as financial management (Nohong et al. 2018). However, it is essential to understand financial concepts and have self-confidence, a condition called Financial Literacy (Saeedi & Hamedi 2018). Essentially, a sound financial literacy improves the manager's ability to manage financial strategy, including determining capital structure. For this reason, it affects the company's performance (Fujianti 2018). Although many studies have been conducted on financial literacy, SMEs' financial performance has not been explained in detail, especially their capital structure. For instance, Adomako and Danso (2014) and Delić et al. (2016) only provided recommendations for further research on financial literacy. They focused on learning and making decisions on the company's capital structure (Adomako & Danso 2014) and financial literacy. This is because financial literacy is perceived to be critical in determining the capital structure decisions (Delić et al. 2016).

This research builds conceptual and empirical models to overcome the gap between Financial Literacy and Capital to improve SME financial performance at Makassar city. As a proxy for Resourced base view theory (Barney 1991), capital structure theory (Modigliani & Miller 1958; 1963) and Pecking Order Theory (Myers & Majluf 1984), the research model is expected to solve SME capital problems in Makassar City. The results are expected to contribute to the body of knowledge on the RBV and capital structure theory.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

FINANCIAL LITERACY

Financial Literacy (Remund 2010) is a measure of financial concepts understanding the ability and confidence to manage personal finances for proper decision making. Lusardi, Mitchell and Curto (2010) defined Financial Literacy as knowledge of basic financial concepts, including compound interest, differences in nominal and real value, diversification of risks, and the time value of money. Educated people often make rational decisions, act logically and rationally, and manage savings properly. In making financial decisions, knowledge insights are needed (Dickerson 2016). This involves considering the psychological and rational risks expected (Tavor & Garyn-Tal 2016). According to Katarachia and Konstantinidis (2014), emotional factors dominate decision making. This leads to a systematic error and bias in making decisions (Blanco 2017). However, Ambuehl, Bernheim and Lusardi (2015); Lusardi (2015) stated that financial education does not influence decisions.

H_1 Financial Literacy has a positive effect on Rational Financing Decision

According to Kaiser and Menkhoff (2017), there is a positive relationship between Financial Literacy and access to capital. Good Financial Literacy affects how financial institutions relate to potential debtors (Lusardi 2019). Cámara and David (2015) stated that insufficient financial knowledge leads to a lack of access to financial products and their frequent utilization failures. Therefore, good financial literacy is advantageous in interacting with financiers (Sherraden & Ansong 2016).

H_2 Financial Literacy has a positive effect on Financial Capital

Agyapong and Attram (2019) stated that there is a significant positive relationship between Financial Literacy and SME Financial Performance. Similarly, Menike (2018) stated that financial knowledge and behavior positively impact company performance.

H_3 Financial Literacy has a positive effect on SME Financial Performance.

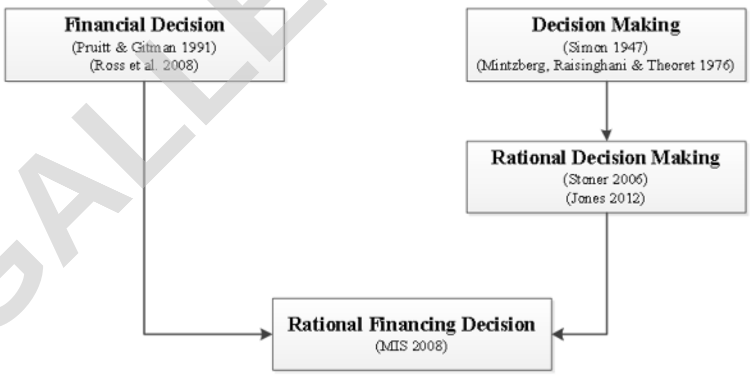
Decision Making Decisions are deliberately selected actions from various alternatives to achieve organizational goals (Abubakar et al. 2019). Decision making is a management function process (Puseljic, Skledar & Pokupec 2015). Basically, quality and timeliness in decision making are essential to the success of any company. According to Simon (1947) and Mintzberg, Raisinghani and Theoret (1976), the decision-making process require three distinct aspects, including intelligence (tracing environmental conditions that need decision making), design (find, develop and analyze problems) and choice (actual choice of available alternatives).

Rational Decision Making Stoner (2006) established that a rational model in making decisions consists of four aspects. This include observing the situation, developing alternatives, assessing and choosing the best among several options, and implementing decisions and monitoring results. Jones (2012) reported that a decision-making model include problem identification, alternative solutions, understanding the consequences of the actions taken, and implementation.

Financial Decision Pruitt and Gitman (1991) established that financial sector requires investment, financing, and dividend decisions. Investment decision refers to the implementation in the allocation of working capital funds and budgeting. The financing decisions determine the source of capital in developing a business, while rational considerations are needed in choosing alternative funding. In companies, capital source is an obligation to be returned to investors, hence called a dividend decision.

Investment, funding, and working capital decisions are interrelated financial strategies (Ross, Westerfield & Jordan 2008). Investment decisions are related to investment capital allocation in companies whose funding decision combines long-term debt and capital used. Working capital decisions include the management of short-term assets and liabilities. It is essential to find the optimal combination of these financial decisions.

Concept Synthesis of Rational Financing Decision The rationality of decision making in business is absolutely necessary. Managers and individuals need adequate financial knowledge in making decisions (Menike 2018). Research on non-performing credit has been conducted for long. However, the results have not been very encouraging. The ratio of non-performing loans has even increased, not only for SME loans. There are still fundamental mistakes during financing, specifically on disbursement, use, and credit refund. Debtors and prospective borrowers often lack knowledge on the risks of misusing loan funds, including poor decisions (Majamaa, Lehtinen & Rantala 2019). Figure 1 shows the broad concept of Rational Financing Decision.



Source: Concept Development (2018)

FIGURE 1. Concept of rational financing decision

According to Rao, Kumar and Madhavan (2019), financing decisions affect the company's capital structure composition. A business owner is obligated to make decisions by paying attention to the company's financial structure and information asymmetry (Alqatamin & Mohammad 2018; Egaña, Bravo & Cabanes 2016; Buvanendra, Sridharan & Thiyagarajan 2017).

H_4 Rational Financing Decision has a positive effect on Financial Capital

Doan (2020) stated that there is a significant positive relationship between financing decisions and SMEs' performance. According to Zada, Yukun and Zada (2019), investment and financing decisions are positively related to company performance and growth. The CEO of a company delegate decisions regarding capital structure in case of insufficient knowledge (Graham, Campbell & Puri 2014). Rashid (2015) stated that managers need to carefully consider the overall economic situation and business activities' solvency when making financing decisions.

H_5 Rational Financing Decision has a positive effect on SME Financial Performance

Financial knowledge influences decision making (Usama & Yusoff 2019). It has a significant effect on business continuity, including negotiation, monitoring, insurance, loans, and savings (Kamyabi & Devi 2011). Entrepreneurs need to improve their financial capacity because it affects business profitability (Hosseini et al. 2012). Furthermore, managers need to understand SMEs' credit risk, which helps them maximize company performance (Li, Niskanen & Niskanen 2019). According to Basah et al. (2016), credit risk management knowledge is essential for sound and sustainable performance.

H_6 Rational Financing Decision mediates between Financial Literacy and Financial Capital.

FINANCIAL CAPITAL

Most SMEs rely on internal financing, short-term credit from suppliers, and special financial products (World Bank 2014). This is because their fund is more controlled with no obligation to pay the installments (Myers 1984; Myers & Majluf 1984). When internal capital is depleted, the company uses external financing. Pecking order theory is more relevant in the SME sector because of the relatively larger Asymmetric Information and high cost of external equity (Brescia & Turin 2017). It uses working capital from (1) Own money (personal savings and retained earnings); (2) Short-term loan; (3) Long-term debt (Myers & Majluf 1984). Miller et al. (2016) and Eniola and Entebang (2015) are the empirical evidence supporting the use of the pecking order theory to SMEs. They emphasized that small businesses rely heavily on loans to finance their operations. Generally, companies that use internal funds tend to be limited and do not consider using external capital (Silver, Berggren & Fili 2016).

Oladele et al. (2014) stated that SME capital comes from personal finances (daily business contributions, bank saving), informal sources (family, friends, money borrowers), and formal sources (banking and microfinance institutions). According to Rossi (2014), the SME's capital come from internal (Retained Profits, Sales of existing assets, reducing inventory levels) and external sources (Leasing, credit from suppliers), as well as long-term finances (Bank loans, Trading, Factoring).

This research positions Financial Capital as a moderating variable. It is based on Adomako and Danso (2014) and Delić et al. (2016) development. According to Sekaran and Bougie (2016), a moderating variable may change the initial relationship between the dependent and independent variables. Baron and Kenny (1986) stated that the moderator might change the strength and direction in the relationship between the dependent and independent variables.

According to Zada et al. (2019) and Ndiaye et al. (2018), there is a positive relationship between working capital and SME performance. Management of accounts payable and receivable is vital in increasing SMEs' profitability (Tauringana & Adjapong 2013). Palacios, Carrillo and Guzmán (2016) established that internal financing sources have a significant positive effect on performance. Contrastingly, external sources have an insignificant positive effect on performance. Phuong et al. (2017) stated that all debt ratios have significant negative relationships with company performance.

H_7 Financial Capital has a positive effect on the financial performance of SMEs

An average of 95.4% of SME owners and managers consider financial literacy as an essential factor in determining the composition of the company's capital structure (Delić et al. 2016). This is because it reduces the impact of asymmetric information and helps owners (managers) make the best decisions regarding financing sources. It ultimately contributes to better business results and competitiveness. Ngek (2016) stated that financial literacy affects financial performance, a relationship strengthened by financial capital availability. According to Adomako and Danso (2014), financial literacy affects a company's performance in case finance (capital) is easily accessed.

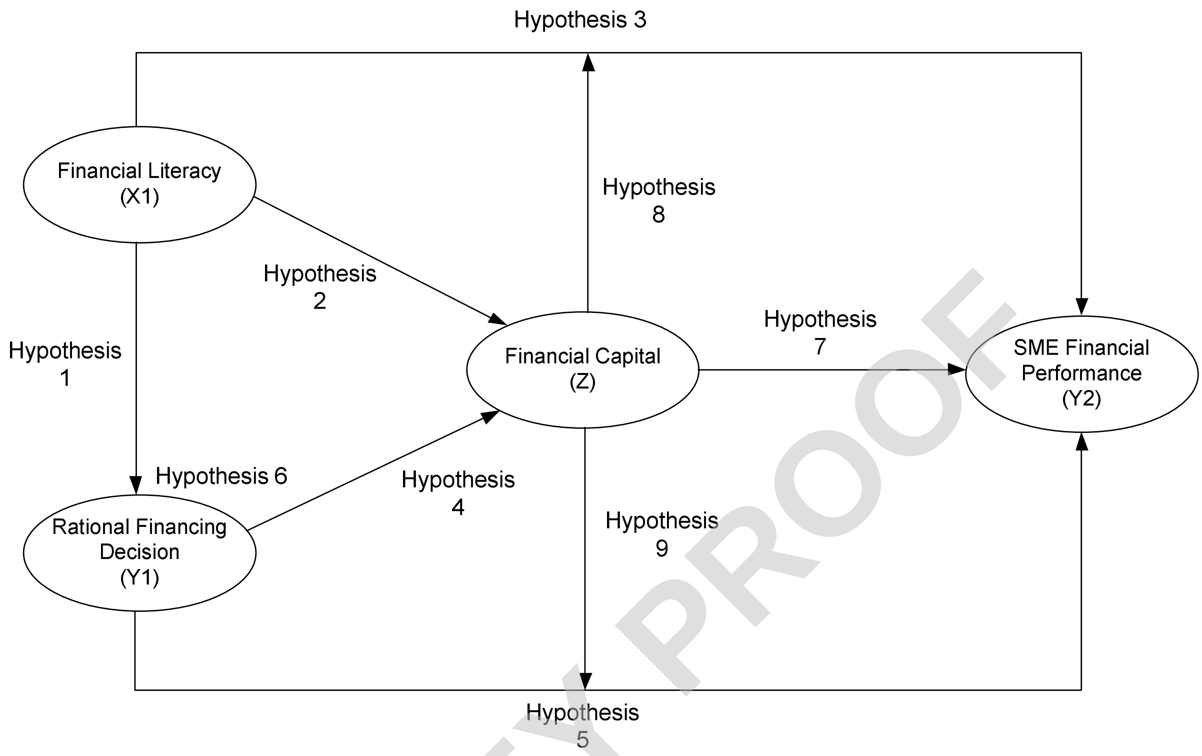
H_8 Financial Capital is a moderating variable between *Financial Literacy* and SME Financial Performance

The company's working capital is determined by its cash flow conditions, growth, age, and size. Finance is often sought to improve company performance (Mazlan & Leng 2018). For this reason, an entrepreneur needs to calculate the benefits likely to be enjoyed by the increase in venture capital before making decisions. This involves determining whether it is the right time to increase capital and its usefulness. Qamar et al. (2016) stated that large companies lower the debt ratio, while small ones increase it. Managers need to revise their financing policies.

Generally, financing can be successful in case it is based on the manager's accuracy in calculating real needs. A wrong analysis leads to a decrease in performance. A little debt improves company performance.

H_9 Financial Capital is a moderating variable between *Rational Financing Decision* on SME Financial Performance

CONCEPTUAL FRAMEWORKS



Source: Concept Development (2018)

FIGURE 2. Conceptual framework

METHODOLOGY

RESEARCH DESIGN AND SAMPLING

This research took place in Makassar from January to September 2018. This is an explanatory research that uses the Non-Probability Sampling method. It focuses on the large trade, retail, and repair sectors as the number two contributor to GRDP in Makassar (BPS Makassar City 2017). Cluster and Stratified Random Sampling techniques are based on the type and number of SMEs that are financed by other institutions. In sampling, the Slovin formulation is used by considering the proportion of uncertain SMEs sampled, hence the technique adopted is random (Susanti, Suprayitno & Ratnasari 2019). The samples chosen were traditional markets (the majority of SMEs were in these locations) (BPS Makassar City 2017), and existing debtors, including those with problems (business is still running). The questionnaire and interviews were conducted successively on these groups of individuals.

Based on the Slovin formulation, a total sample of 400 respondents was obtained. A total of 310 questionnaires were successfully collected, though 31 were invalid. Therefore, the total sample size is 279, where 149 respondents were in traditional markets, while 130 respondents were debtors of existing financial institutions. Descriptive and inferential statistical analysis (data measurement, validity and reliability tests, structural equation modeling test, and determination coefficient analysis) was used for data analysis (Lodico, Spaulding & Voegtle 2006). Measurement of variables was carried out using a Likert scale with Strongly Agree, Agree, Less Agree, Disagree, and Strongly Disagree (Joshi et al. 2015).

TABLE 1. Operational definition

Construct	Meaning	Indicator	Source	Scale
Financial Literacy	understands financial aspects, including risks that may occur in the business's management.	1. Knowledge of interest 2. Knowledge of risk 3. How to count interest 4. How to manage risk 5. Budgeting 6. Saving 7. Investment 8. Debt 9. Financial Performance 10. Company protection 11. Financial products 12. Teaching 13. Learning	Lusardi and Scheresberg (2013) Remund (2010) Sabri and MacDonald (2010) Rahmandoust et al. (2011)	Interval
Rational Financing Decision	rationality in making financing decisions	1. Credit amount 2. Benefit and risk 3. Update financial information	Muhammad Irfai Sohilauw (2018)	Interval
Financial Capital	capital condition of SMEs in conducting their business	1. Daily contribution of the business 2. Savings in the bank 3. Retained earnings 4. Family 5. Friend 6. Money borrowers 7. Credit from suppliers 8. Commercial banks 9. Microfinance institutions	Oladele et al. (2014) Rossi (2014)	Interval
SME Financial Performance	debtor's business performance	1. Sales growth 2. Asset growth 3. Profitability growth	Lee and Tsang (2001)	Interval

Source: Concept Development (2018)

RESULTS

RESPONDENT PROFILE

Respondents were divided into traditional markets (149 people), Small Business debtors (75 people), Medium Business debtors (41 people), and Troubled Debtors (14 people). Total Non-Market Respondents are 130 people. The total number of respondents was 279. The trading business respondents were 84.2% (235 people), while 15.8% were service businesses (44 people). Based on gender, 67.7% (189) were male, while 32.3% (90) were female. Based on age, respondents aged > 51 years were 77.1% (215), 41-50 were 21.9% (61), 3 aged 31-40 are 3 respondents (0.9%). In terms of education level, 10.8% (30) graduated from Junior High School education, 69.2% (193) had a Senior High School education, and 20.1% (56) had a Bachelor degree. Based on the length of business, respondents with business, especially of > 21 years old, were 80.6% (225 respondents), 17.6% (49) 16-20 years, and 1.8% (5) with 11-15 years.

VALIDITY TEST

TABLE 2. Construct validity test results

Variable	Item	*Indicator*	*Loading Factor (>0.5)*	*Construct Reliability (>0.7)*	*Variance Extracted (>0.5)*
	X1.1	Knowledge of interest	0.803		
	X1.2	Knowledge of risk	0.783		
	X1.3	How to count interest	0.699		
	X1.4	How to manage risk	0.805		
	X1.5	Budgeting	0.798		
	X1.6	Saving	0.804		
Financial Literacy	X1.7	Investment	0.677	*0.9*	
	X1.8	Debt	0.757		
	X1.9	Financial performance	0.700		*0.5*
	X1.10	Protection of companies	0.609		
	X1.11	Financial product	0.722		
	X1.12	Teaching	0.680		
	X1.13	Learning	0.675		
	Y1.1	Loan amount	0.779		
Rational Financing Decision	Y1.2	Benefit and risk	0.629	*0.8*	*0.5*
	Y1.3	Financial information update	0.725		
	Y2.1	Sales growth	0.671		
SME Financial Performance	Y2.2	Asset growth	0.917	*0.9*	*0.7*
	Y2.3	Profitability growth	0.849		
	Z.1	Daily business contribution	0.659		
	Z.2	Saving in bank	0.713		
Financial Capital	Z.3	Retained earnings	0.559	*0.8*	*0.4*
	Z.7	Credit from suppliers	0.505		
	Z.8	Commercial bank	0.586		
	Z.9	Microfinance institution	0.668		

Source: primary data processed (2019)

The factor loading of all question items for the variable has fulfilled the requirements, specifically > 0.5. The reliability test results in Table 2 show that the instrument is reliable because one of the construct reliability value or variances extracted is within the acceptable limits.

SEM ANALYSIS

Structural Model Feasibility Testing

TABLE 3. Comparison of model fit index with cut-off value

Criteria	Results	*Cut-off Value*	Model Evaluation
X^2 - *Chi-Square*	431.197	Expected to be small	*Not Fit*
Probability	0.000	≥ 0.05	*Not Fit*
CMIN/DF	1.883	≤ 2.00	*Good Fit*
RMSEA	0.056	≤ 0.08	*Good Fit*
GFI	0.894	≥ 0.90	*Marginal Fit*
AGFI	0.850	≥ 0.90	*Marginal Fit*
TLI	0.937	≥ 0.90	*Good Fit*
CFI	0.952	≥ 0.90	*Good Fit*

Source: primary data processed (2019)

Table 3 shows the four criteria for the goodness of fit that have fulfilled the cut off value. According to the evaluation results, the final model is good.

DIRECT HYPOTHESIS

The significance level of parameter estimation in hypothesis testing is set at 95% or α = 0.05 as follows:

TABLE 4. Direct effect hypothesis testing

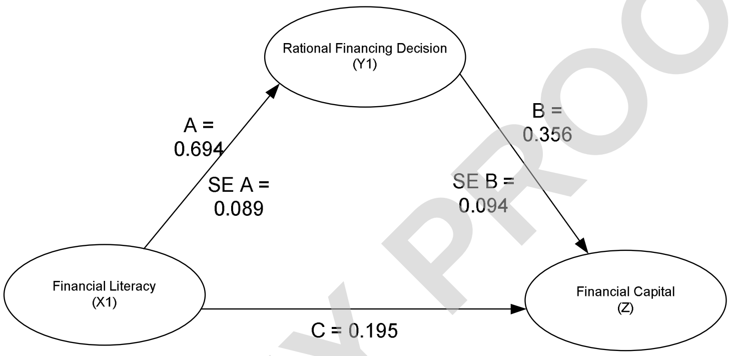
Independent Variable	Dependent Variable	Estimate	C.R.	P	Results
Financial Literacy	Rational Financing Decision	0.694***	7.807	0.000	Supported
Financial Literacy	Financial Capital	0.195**	2.236	0.025	Supported
Rational Financing Decision	Financial Capital	0.356***	3.774	0.000	Supported
Financial Literacy	SME Financial Performance	0.268***	2.920	0.004	Supported
Rational Financing Decision	SME Financial Performance	0.184*	1.867	0.062	Not Supported
Financial Capital	SME Financial Performance	0.183**	2.373	0.018	Supported

Note: *10% level significant, **5% level significant, ***1% level significant
Source: primary data processed (2019)

Based on table 4, the results of direct hypothesis testing for five causalities are confirmed. However, the causality of the Rational Financing Decision on SME Financial Performance is not confirmed.

INDIRECT HYPOTHESIS

Mediation Testing



Source: Primary data processed (2019)

FIGURE 3. Sobel test

Based on Figure 3, the Rational financing decision's coefficient value in explaining the effect of Financial Literacy on Financial Capital is 3,406 (> 1.98) and significant.

TABLE 5. Mediation effect testing results

Exogenous	Endogenous	Intervening	Estimate (Indirect)	S.E. (Indirect)	C.R. (Indirect)	Prob.	Results
Financial Literacy	*Financial Capital*	*Rational Financing Decision*	0.247	0.125	1.982	0.048	Supported

Source: primary data processed (2019)

Table 5 shows that Financial Literacy affects Financial Capital by mediating the Rational Financing Decision. Rational Financing Decision acts as a partial mediator (Namazi & Namazi 2016).

MODERATION TESTING

According to Table 6, Financial Literacy not affect SME Financial Performance by moderating Financial Capital. Furthermore, Rational Financing Decision not affect SME Financial Performance by moderating Financial Capital moderation. From Table 6, Financial Capital is not a mediator variable because it is negative (Namazi & Namazi 2016). For coefficient of determination, the overall model contribution is 0.695, meaning that the SME financial performance is explained by the Financial Literacy, Rational Financing Decision, and Financial Capital by 69.5%.

TABLE 6. Moderation effect testing results

Exogenous	Endogenous	Moderator	Estimate	C.R. (Indirect)	Prob.	Results
Financial Literacy	SME Financial Performance	*Financial Capital*	-0.657	-2.403	0.016	Not Supported
Rational Financing Decision	SME Financial Performance	*Financial Capital*	-1.835	-2.410	0.016	Not Supported

Source: Primary data processed (2019)

DISCUSSION

FINANCIAL LITERACY AND RATIONAL FINANCING DECISION

Financial Literacy has a direct and significant effect on Rational Financing Decision. The better the Financial Literacy of SME entrepreneurs, the better their Rational Financing Decision. Since SME entrepreneurs need good and rational financial knowledge when making decisions, there is a positive change in the estimate. According to the respondents, the interest rate needs to be considered when taking a loan (X1.1). The concept of interest rates is very simple, including the debt principal's results, the interest rate per period, and the loan term. In case the interest rate is too high, the installments may not be paid, affecting the business cash flow. On this basis, the respondent estimates the total liabilities to be paid during the loan term, including the term, fees, installment patterns, and others. Otherwise, the loan nominal might be larger for respondents to repay.

Respondents actively use banking financial facilities to save business profits (savings, current accounts, or deposits) in different portions (Indicator X1.6). Based on the interviews, savings are usually for incidental needs and additional business capital. Current accounts and deposits are used for transactions and investments, respectively. For this reason, respondents expect the business and personal wealth to be separated. Current accounts are preferred for transactions because they are more practical and do not need to hold cash.

These findings are in line with Dickerson (2016), which stated that financial insight is needed in decision making. The decisions are based on rational considerations of the risks faced (Tavor & Garyn-Tal 2016). However, this research contradicts (Katarachia & Konstantinidis 2014) because emotional factors dominate financial decisions, resulting in systematic errors and bias in decision making (Blanco 2017). Furthermore, Ambuehl et al. (2015) stated that financial education does not affect financial decisions.

FINANCIAL LITERACY AND FINANCIAL CAPITAL

Financial literacy has a direct and significant effect on Financial Capital. The better the Financial Literacy of SME entrepreneurs, the higher the chance of securing Financial Capital. The estimated value is in a positive direction because SME entrepreneurs need sufficient financial knowledge to access financial products (Financial Capital).

The majority of respondents use their savings in a bank as additional business capital (indicator Z.2), rather than deposits and current accounts (indicator X_1.6). In case they do not save, the business results cannot be visible or enjoyed. High-interest rates and reduced purchasing power are the causes of respondents' unwillingness to use bank loans. For this reason, the business cash flow can be disrupted. In case the interest rate offered is high (indicator X_1.1), it cannot be accepted.

Respondents need financial knowledge in choosing sources of financing, analyzing carefully before deciding what suits the business needs. The decision to choose logical and rational financing sources, inside or outside the company, makes the public more careful. In case it is wrong, it may have fatal consequences and affect business operations.

These results are in line with several studies. For instance, Kaiser and Menkhoff (2017) stated that low financial understanding makes it difficult for people to access financial products. According to Lusardi (2019) there is a positive relationship between Financial Literacy and access to capital. Cámara and David (2015) stated that Lack of Financial Literacy affects access to credit. Sherraden and Ansong (2016) established that in case financial literacy is managed properly, it is easy to access sources of capital.

FINANCIAL LITERACY AND FINANCIAL PERFORMANCE OF SMES

Financial Literacy has a direct and significant effect on the financial performance of SMEs. The better the Financial Literacy, the higher the opportunity to improve performance. The estimated value with a positive direction is attributed to the SME entrepreneurs using their knowledge (finance) to run the business. Working capital is managed from loans and their property. The allocation is in line with the business development plan.

With the knowledge of calculating loan interest rates, respondents can be selective in business capital sources. They save returns in the form of savings (tactical fund requirements), and current accounts and deposits as a medium for storing wealth (indicator X_1.6). This is proven by the Y_2.2 indicators (wealth growth), the highest loading factor for the SME financial performance variable (Y_2). Since sales tend to decline, respondents prefer saving their business results instead of turning them into capital. This leads to an increase in their business wealth increases (indicator $Y_2.2$). Financial performance increases when the company's Financial Capital is selected and processed correctly. In case it is wrong or wrongly executed, capital affects the business as a whole. It reduces sales, wealth, and business profits. These results are in line with Agyapong and Attram (2019) and Menike (2018), which stated that good financial literacy improves the performance of SMEs.

RATIONAL FINANCING DECISION AND FINANCIAL CAPITAL

Rational financing decision has a direct and significant effect on Financial Capital. The better the Rational Financing Decision of SME entrepreneurs, the higher the chance of securing Financial Capital. Estimated value in a positive direction is attributed to SME entrepreneurs using common sense before deciding to take a loan (appropriate and correct amount). SME entrepreneurs also need a lot of (financial) information to run their business.

Respondents calculate the real credit needs before submitting it to the financing institution (indicator Y1.1). They do not want to be "redundant" to avoid affecting the payment of interest costs. Furthermore, respondents analyze benefits and risks before deciding to take a loan (with financial knowledge possessed), and actively seek the latest financial information via TV and newspapers. Understanding the current conditions also affects behavior and the business cycle.

These findings are in line with Rao et al. (2019), which stated that financing decisions affect the composition of a company's capital structure; Alqatamin and Mohammad (2018), which stated that the CEO is responsible for determining the company's capital structure decisions; paying attention to it, as well as the prevailing asymmetric information (Egaña et al. 2016; Buvanendra et al. 2017).

RATIONAL FINANCING DECISION AND SME FINANCIAL PERFORMANCE

Rational Financing Decision has a direct but insignificant effect on SMEs' financial performance in a negative direction. The better the Rational Financing Decision level, the lower the SME Financial Performance. The financial development update (0.454) is the lowest loading factor of the Rational Financing Decision variable. Respondents know that independent learning or help from other parties (financial institutions) improve skills and knowledge to manage funds (de Grip & Pleijers 2019). Attention from creditors encourages respondents to manage their loans (Sohilauw et al. 2019).

The low sales level (indicator Y2.1/loading factor 0.400) of SMEs also makes this hypothesis insignificant. Although there are still buyers, the numbers are not as many as usual. The shift from conventional to online transactions indirectly reduces the sales level of SMEs (Barhatov, Campa & Pletnev 2018).

These results contradict several studies. For instance, Doan (2020) stated that financing decisions have a significant effect on SME performance. According to Zada et al. (2019), financing decisions affect the company's growth rate. Graham et al. (2014) stated that company CEOs delegate decisions (capital structure) in case they lack adequate knowledge. Rashid (2015) established that managers should carefully consider the overall state of the economy and the solvency of their business activities when making financing decisions.

FINANCIAL LITERACY AND FINANCIAL CAPITAL MEDIATED BY RATIONAL FINANCING DECISION

Financial Literacy affects Financial Capital mediated by the Rational Financing Decision. The better the Rational Financing Decision support, the better the relationship between Financial Literacy and Financial Capital. Rational Financing Decision in indirect causality acts as a partial mediation. Statistically, the position of the partial mediation of the Rational Financing Decision (Y1) variable is determined by the high Y1.1 indicator, which analyzes each credit requirement. In case the respondent has analyzed the need for credit well, the decision to make financing can be efficient and right on target.

Analyzing and knowing the benefits and risks of taking credit helps respondents make informed decisions. Financial Literacy increases self-confidence, promote innovation, and an entrepreneurial spirit in business investment, including determining the financing source. For this reason, it produces a high rate of return.

These findings are in line with several studies. For instance, Usama & Yusoff (2019) stated that entrepreneurs understanding financial knowledge make (financial) decisions and other actions with financial implications. According to Kamyabi and Devi (2011), financial literacy significantly affects business continuity, including negotiations, monitoring, insurance, loans, and savings. Hosseini et al. (2012) stated that entrepreneurs are expected to improve their financial capacity to access financial services. Financial managers need to understand SMEs' credit risk in maximizing company performance (Li et al. 2019). Basah et al. (2016) established that knowledge of credit risk management is critical for a good and sustainable performance.

FINANCIAL CAPITAL AND FINANCIAL PERFORMANCE OF SME

Financial Capital directly and significantly affects the financial performance of SMEs. The better the ownership level, the better the performance. The estimated value in this positive direction is attributed to the fact that SME entrepreneurs consistently use loan funds for business operations.

Based on interviews, most respondents save their business gains in savings, current accounts, and deposits. Due to high-interest rates and weak public purchasing power, they prefer to use funds from their business savings because they are risk-free (Z2 indicator). Additionally, they understand the advantages of using their capital to finance a business, such as no interest and administrative expenses, and not dependent on others, though the amount may be limited. Therefore, respondents have to adjust the composition of their capital, when to use their own funds (Myers 1984; Myers & Majluf 1984) and external funds (Modigliani & Miller 1958). The majority of the respondents save their business returns in bank financial products, automatically increasing their wealth in the form of demand deposits, savings, and deposits (Y2.2 indicator).

These findings are in line with several studies. For instance, Zada et al. (2019); Ndiaye et al. (2018) stated a significant positive relationship between financial capital and SME performance. This increases the SMEs profitability (Tauringana & Adjapong 2013). According to Palacios et al. (2016), SMEs opt for financing because due to a significant impact on improving financial performance. However, these findings contradict Phuong et al. (2017), which stated that all loan ratios have a significant negative relationship with company performance.

FINANCIAL LITERACY ON SME FINANCIAL PERFORMANCE MODERATED BY FINANCIAL CAPITAL

The lower the financial capital support, the weaker the relationship between Financial Literacy and SME Financial Performance. The financial capital support is not a mediating variable. Statistically, the results of the validity test are shown in Table.3. The Table shows that the Financial Capital variable's highest loading factor lies in the indicator using personal savings/Z2 (0.713). The respondent chooses to use savings (the results of business profits) as an additional business capital.

Additional working capital in the form of loans from non-bank financial institutions ranks the second-highest loading factor (0.668). The respondents usually use this option for urgent, consumptive, and incidental needs. Compared to banks, the terms of credit for non-bank financial institutions were lighter, though the loan interest rates were equally higher. However, respondents are aware of and understand this condition.

Additional capital from daily business profits is in third place with a loading factor of 0.659. Respondents maximize existing funds and focus on completing loans. They are careful when getting loan offers because of the unfavorable economic conditions.

This finding is in line with the Pecking Order Theory, which states that entrepreneurs prioritize the company's internal business funding over external sources (Myers 1984; Myers & Majluf 1984).

These findings however, are not in line with several studies. For instance, Delić et al. (2016) stated that financial literacy reduces the impact of asymmetric information, helps owners make decisions about sources of financing, and contributes to business returns and competitiveness. According to Adomako and Danso (2014); Ngek (2016), business experience, knowledge, and company resources (human) flexible to (financial) information affect performance.

RATIONAL FINANCING DECISION ON SME FINANCIAL PERFORMANCE MODERATED BY FINANCIAL CAPITAL

The lower the financial capital support, the weaker the relationship between Rational Financing Decision and SME Financial Performance, hence not a mediating variable. Respondents avoid using external funds to increase business capital. Financial Capital's highest loading factor lies in the indicator of using personal savings/Z2 (0.713). An increase in interest rates is the main reason for choosing a financing source. High loan interest rates increase the interest expense to be paid, and not in line with business income (Choi 2018). Fluctuating loan interest rates make it difficult for respondents to regulate business cash flow. It also has the potential to limit business growth due to slowing down economic growth (Fransson & Tysklind 2016). Slower economic growth has the potential attributed to an increase in non-performing loans. This is due to an increase in loan interest rates (Financial Services Authority 2018).

The decline in purchasing power is one of the reasons why hypothesis 9 cannot be accepted. Purchasing power is one of the functions of money. Essentially, money can be exchanged for goods and services, and its value depends on the quantity and quality of goods and services that can be purchased. These findings contradict other studies. For instance, Mazlan and Leng (2018) stated that based on a company's working capital condition, the entrepreneurs calculate the benefits and time to use capital to improve the company's performance. According to Qamar et al. (2016), high liquidity in large companies reduces loan ratios. However, this is not the case in companies with low liquidity. Financing can be successful in case it is preceded by the manager's accuracy in calculating real needs. In case it is analyzed wrongly, it leads to a decrease in company performance.

MANAGERIAL IMPLICATION

The results of this study have critical implications on financial institutions because it relates to loan realization. Financial Services Authority credit realization report in February 2019 shows a deceleration in SME credit performance (Financial Services Authority 2019). Financial institutions need to find ways of maintaining appropriate credit performance amidst declining purchasing power and high loan interest rates.

CONCLUSION

This study shows an insignificant relationship between Rational Financing Decision and financial performance (H5), and that financial capital does not act as a moderating variable (H8 and H9). Rational Financing Decision does not significantly affect the financial performance of SMEs. SME entrepreneurs need sufficient time to access the latest (economic) information, take part in training, get business mentoring to improve their businesses' financial performance. From the interviews, ignorance in managing loans and improper monitoring of financial institutions causes the insignificance of this causality. The financial performance of SMEs improves in case the selection of Financial Capital is sound, rational, and in line with needs.

Financial capital is not a moderating variable in the relationship between financial literacy and performance of SMEs. The more often entrepreneurs use personal savings, the less the consumption of external funds. High-interest rates and weak public purchasing power contribute to the decline in credit consumption by financial institutions.

Financial Capital is not a moderating variable in the relationship between Rational Financing Decision and SME Financial Performance. The better the credit analysis, the lower the consumption of the company's external funds. Good rational financing decisions for SME entrepreneurs make them analyze credit according to their needs.

This study's results are in line with (Barney 1991), which stated that VRIN (valuable, rare, immitability, not substitute) company resources create competitive advantage. Financial Literacy is a company's intangible asset (Barney & Hesterly 2015). When appropriately utilized, competitive advantage can be created with a positive impact on performance (Barney & Hesterly 2015). Financial decision-making rationality confirms the theory of financial behavior, which states that humans are affected by psychological aspects in making financial decisions (Ricciardi and Simon 2000). Furthermore, this study also confirms the preference for internal capital in Pecking Order Theory (Myers 1984; Myers & Majluf 1984).

The unconfirmed hypotheses and the determination coefficient that is only 69.5%, can be used as a reference for further research. Monitoring and mentoring existing debtors in managing loans and businesses can be further examined. Based on the worrisome condition of SME NPLs, close monitoring from the financial institutions is necessary. Rational Financing Decision needs to be dissected and used in other studies to test its accuracy and maturity. It is also vital to sample theoretically more educated respondents, such as lecturers, teachers, and employees.

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