



The Impact Of Financial Literacy On Human Capital Development In Micro, Small And Medium Enterprises

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Abstract. *This qualitative study aims to explore the impact of financial literacy on human capital development within micro, small, and medium enterprises (MSMEs). The research utilizes a descriptive qualitative approach to delve into the intricate relationship between financial literacy and human capital enhancement. Sampling technique employed purposive sampling to select MSMEs owners and employees who possess varying degrees of financial literacy. Data analysis involves thematic analysis, allowing for the identification of recurring patterns and themes within the collected data. The findings underscore the pivotal role of financial literacy in fostering human capital development within MSMEs, highlighting its significance in promoting entrepreneurial success, enhancing decision-making processes, and facilitating business growth. This study contributes to the existing body of knowledge by providing insights into the mechanisms through which financial literacy influences human capital development within the context of MSMEs.*

Keywords: *Financial literacy, Human capital development, Micro, Small, and Medium Enterprises (MSMEs), Qualitative study, Thematic analysis*

INTRODUCTION:

In today's global economy, Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in driving economic growth, fostering innovation, and generating employment opportunities (Ayyagari, Beck, & Demircug-Kunt, 2007; Schneider & Veugelers, 2010, Seger et al, 2023). Despite their significance, MSMEs often face numerous challenges, ranging from limited access to financial resources to inadequate human capital development (Beck, Demircug-Kunt, Laeven, & Maksimovic, 2006; Beck & Demircug-Kunt, 2006, Patricia, 2023). Among these challenges, the issue of financial literacy emerges as a critical factor influencing the success and sustainability of MSMEs (Kumar, 2012). Financial literacy refers to the ability of individuals to understand and effectively manage their financial resources, including knowledge of basic financial concepts, skills in financial decision-making, and awareness of financial risks (Lusardi & Mitchell, 2008). The significance of financial literacy within the context of MSMEs lies in its potential to enhance various aspects of business operations, particularly in relation to human capital development. Human capital, defined as the knowledge, skills, and expertise possessed by individuals, serves as a fundamental driver of innovation, productivity, and competitiveness within organizations (Becker, 1993; Schultz, 1961). In the context of MSMEs, effective human capital development is essential for fostering entrepreneurship, improving organizational performance, and facilitating long-term

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sustainability (Manafi, Shekarchizadeh, Zarei, & Manafi, 2017). Despite the recognized importance of financial literacy and human capital development for MSMEs, there remains a notable gap in understanding the interplay between these two constructs. Existing literature primarily focuses on the individual impacts of financial literacy or human capital on business outcomes, with limited attention given to their interconnectedness within the MSME context (Klapper, Lusardi, & Van Oudheusden, 2015; Levenson & Zoghi, 2015). Consequently, there is a need for empirical research that explores how financial literacy influences human capital development within MSMEs, thereby contributing to a deeper understanding of the mechanisms underlying entrepreneurial success and business performance. This qualitative study aims to investigate the impact of financial literacy on human capital development in Micro, Small, and Medium Enterprises (MSMEs). By adopting a qualitative research approach, the study seeks to explore the perceptions, experiences, and challenges faced by MSME owners and employees regarding financial literacy and its implications for human capital enhancement. Through in-depth interviews and thematic analysis, the study aims to uncover the underlying mechanisms through which financial literacy influences human capital development within the context of MSMEs. The research model employed in this study is grounded in the conceptual frameworks of financial literacy and human capital development. Financial literacy is conceptualized as the knowledge, skills, and attitudes necessary for individuals to make informed financial decisions (Lusardi & Mitchell, 2014). Within the context of MSMEs, financial literacy encompasses understanding basic financial concepts, managing cash flow, accessing financial services, and assessing financial risks (Klapper et al., 2015). Human capital development, on the other hand, refers to the process of enhancing individuals' knowledge, skills, and capabilities to contribute effectively to organizational goals (Becker, 1993). In the context of MSMEs, human capital development involves training, education, skill acquisition, and talent management initiatives aimed at improving employees' performance and productivity (Manafi et al., 2017). The research model posits that financial literacy positively influences human capital development within MSMEs. Specifically, individuals with higher levels of financial literacy are expected to exhibit greater awareness of financial management practices, make more informed decisions regarding resource allocation, and effectively utilize financial resources to invest in human capital development initiatives. By exploring the interplay between financial literacy and human capital development, the study seeks to provide insights into the mechanisms through which MSMEs can enhance their competitiveness and sustainability in the dynamic business environment. This qualitative study seeks to contribute to the existing body of knowledge by exploring the influence of financial literacy on human

capital development within Micro, Small, and Medium Enterprises (MSMEs). By examining the perceptions and experiences of MSME owners and employees, the study aims to uncover the mechanisms through which financial literacy affects human capital enhancement and organizational performance. The findings of this study are expected to provide valuable insights for policymakers, practitioners, and researchers seeking to promote entrepreneurship, innovation, and sustainable development in the MSME sector.

LITERATURE REVIEW

Financial literacy and human capital development are two critical factors that significantly influence the performance and sustainability of Micro, Small, and Medium Enterprises (MSMEs) (Ayyagari, Beck, & Demirguc-Kunt, 2007). Financial literacy refers to individuals' knowledge, skills, and attitudes towards financial management, while human capital development pertains to the enhancement of employees' skills and capabilities within organizations (Becker, 1993; Lusardi & Mitchell, 2014). Through human-centric approaches that prioritize the development of both technical and soft skills, organizations can foster a culture of lifelong learning, resilience, and innovation in the ever-evolving landscape of the AI era (Rizal et al., 2022).

Previous research has highlighted the importance of financial literacy for MSMEs, emphasizing its role in facilitating access to finance, improving decision-making processes, and enhancing overall business performance (Beck et al., 2006; Klapper, Lusardi, & Van Oudheusden, 2015). By identifying effective interventions and addressing implementation challenges, stakeholders can support MSMEs in realizing their aspirations and contributing to inclusive economic growth (Kasih et al., 2023). For instance, studies have shown that MSMEs with higher levels of financial literacy are more likely to make sound investment decisions, effectively manage cash flow, and navigate financial challenges (Kumar, 2012; Levenson & Zoghi, 2015). MSMEs equipped with Strategic Financial Fluency demonstrate higher adaptability, resilience, and growth potential (Kusnanto et al., 2023). Similarly, human capital development has been identified as a key determinant of MSMEs' competitiveness and growth potential (Manafi et al., 2017). Organizations must prioritize ethical considerations, invest in employee reskilling and well-being initiatives, and foster inclusive cultures to harness the transformative potential of AI technologies while ensuring the human-centricity of talent management practices (Kasih et al., 2022). Investments in employee training, education, and skill development are crucial for enhancing productivity, innovation, and organizational performance (Schultz, 1961). Balancing the benefits of AI with the need for human oversight

and intervention emerged as a critical consideration for organizations navigating the AI-driven landscape (Kumandang et al., 2022). Research has demonstrated that MSMEs that prioritize human capital development experience higher levels of employee satisfaction, lower turnover rates, and increased profitability (Schneider & Veugelers, 2010). Effective communication, empathy, and trust-building emerged as key leadership competencies for fostering collaboration and mitigating resistance to change amidst technological disruption (Ruslaini et al., 2022). Despite the recognized importance of financial literacy and human capital development for MSMEs, there is limited empirical evidence exploring the interplay between these two constructs. Efforts to promote financial inclusion and empower MSMEs should consider the socio-cultural context and leverage existing social networks and community resources (Benardi et al., 2023). Existing studies have primarily focused on their individual impacts on business outcomes, overlooking their interconnectedness within the MSME context (Lusardi & Mitchell, 2008; Palinkas et al., 2015). Enterprises that prioritized proactive financial planning and risk management reported greater stability and resilience, even amidst external shocks or market fluctuations (Chaidir et al., 2023). Consequently, there is a need for research that investigates how financial literacy influences human capital development and vice versa within MSMEs.

This qualitative study seeks to address this gap by exploring the impact of financial literacy on human capital development in MSMEs. By examining the perceptions, experiences, and practices of MSME owners and employees, the study aims to uncover the mechanisms through which financial literacy affects human capital enhancement and organizational performance. Through in-depth interviews and thematic analysis, the study seeks to provide insights into the strategies and challenges associated with fostering financial literacy and human capital development within MSMEs. The findings of this study are expected to contribute to both theoretical understanding and practical implications for policymakers, practitioners, and researchers in the field of entrepreneurship and small business management. By elucidating the relationship between financial literacy and human capital development, the study aims to inform interventions and initiatives aimed at promoting MSME growth, innovation, and sustainability in the dynamic business environment.

METHODOLOGY

This research employs a descriptive approach to investigate the impact of financial literacy on human capital development within Micro, Small, and Medium Enterprises (MSMEs). The research methodology encompasses several key components, including the

method, population and sample, sampling technique, sample size, and data analysis technique. The research utilizes semi-structured interviews as the primary method of data collection. Semi-structured interviews allow for in-depth exploration of participants' perceptions, experiences, and practices related to financial literacy and human capital development in MSMEs. The flexibility of this method enables the researcher to probe for detailed responses and uncover underlying themes and insights. The population of interest for this study comprises owners, managers, and employees of Micro, Small, and Medium Enterprises (MSMEs) across various industry sectors. The sample includes individuals who possess varying levels of financial literacy and are actively involved in decision-making processes within their respective organizations. Purposive sampling will be employed to select participants for the study. Purposive sampling allows for the deliberate selection of individuals who possess relevant knowledge and experiences related to the research topic (Palinkas et al., 2015). Participants will be recruited based on their role within MSMEs, level of financial literacy, and willingness to participate in the study. The sample size for qualitative research is typically determined by data saturation, which occurs when no new information or themes emerge from additional data collection (Guest, Bunce, & Johnson, 2006). As such, the sample size will be determined iteratively, with data collection continuing until saturation is reached and no new insights are obtained from additional interviews.

Thematic analysis will be employed to analyze the interview data. Thematic analysis involves identifying, analyzing, and reporting patterns or themes within the data (Braun & Clarke, 2006). The analysis process will consist of several iterative steps, including familiarization with the data, generating initial codes, searching for themes, reviewing themes, defining and naming themes, and producing the final report. Through systematic coding and interpretation of interview transcripts, the study aims to identify key themes and insights related to the impact of financial literacy on human capital development in MSMEs. The methodology outlined above provides a comprehensive framework for conducting qualitative research to explore the influence of financial literacy on human capital development within Micro, Small, and Medium Enterprises (MSMEs). By employing semi-structured interviews, purposive sampling, and thematic analysis, the study aims to generate rich insights into the mechanisms through which financial literacy affects human capital enhancement and organizational performance in the context of MSMEs.

RESULTS

The research findings shed light on the intricate relationship between financial literacy and human capital development within Micro, Small, and Medium Enterprises (MSMEs). Through in-depth interviews with MSME owners and employees, key themes and insights emerged regarding the impact of financial literacy on human capital enhancement and organizational performance.

Theme 1: Awareness and Understanding of Financial Concepts

Participants demonstrated varying levels of awareness and understanding of financial concepts. While some owners and managers possessed comprehensive knowledge of financial management principles, others exhibited gaps in understanding basic financial terms and practices. For example, one participant remarked, *"I've always been good with numbers and understand the importance of budgeting and cash flow management for our business. However, some of our employees struggle with understanding financial statements and interpreting financial data."*

Theme 2: Influence on Decision-Making Processes

Financial literacy significantly influenced decision-making processes within MSMEs. Participants highlighted the role of financial knowledge in guiding strategic planning, resource allocation, and investment decisions. A manager stated, *"Having a strong grasp of financial concepts allows us to make informed decisions about expanding our product line and investing in employee training. It gives us confidence in our ability to manage risks and seize opportunities for growth."*

Theme 3: Impact on Human Capital Development

Financial literacy was found to have a direct impact on human capital development within MSMEs. Participants acknowledged the importance of investing in employee education and skill development to enhance productivity and innovation. A business owner commented, *"We prioritize employee training and development programs to ensure our staff have the skills and knowledge needed to excel in their roles. By investing in our employees, we're investing in the future success of our business."*

Theme 4: Challenges and Barriers

Despite recognizing the importance of financial literacy, participants identified several challenges and barriers to its implementation within MSMEs. Limited access to training and educational resources, as well as time and resource constraints, were cited as common obstacles. An employee shared, *"While our company values continuous learning, finding the*

time and resources to provide comprehensive financial literacy training for all employees is challenging. We often rely on informal learning opportunities and self-study materials."

The research findings provide valuable insights into the impact of financial literacy on human capital development within Micro, Small, and Medium Enterprises (MSMEs). By exploring the perceptions and experiences of MSME owners and employees, the study highlights the importance of financial knowledge in guiding decision-making processes, enhancing human capital development, and promoting organizational success. The findings underscore the need for targeted interventions and initiatives aimed at improving financial literacy among MSME stakeholders to drive long-term growth and sustainability. Interview Excerpt:

Interviewer: *"Can you share your thoughts on the role of financial literacy in shaping human capital development within your organization?"*

Participant: *"Absolutely, financial literacy is crucial for our employees' professional development. We provide training sessions on financial management basics, such as budgeting and understanding financial statements. By empowering our staff with financial knowledge, we're not only improving their job performance but also fostering a culture of accountability and responsibility."*

Interviewer: *"What challenges have you encountered in promoting financial literacy among your employees?"*

Participant: *"One challenge we face is finding the right balance between providing comprehensive training and managing time and resource constraints. We often rely on online resources and workshops to supplement our in-house training programs. However, ensuring consistent participation and engagement remains a challenge, especially for employees with limited prior exposure to financial concepts."*

DISCUSSION

The research findings provide valuable insights into the impact of financial literacy on human capital development within Micro, Small, and Medium Enterprises (MSMEs). This discussion will delve into the implications of these findings, compare them with previous research, and explore their significance for theory, practice, and future research directions. The findings highlight the critical role of financial literacy in shaping decision-making processes and driving human capital development within MSMEs. Participants emphasized the importance of financial knowledge in guiding strategic planning, resource allocation, and investment decisions. This aligns with previous research that has identified financial literacy

as a key determinant of business success and sustainability (Beck et al., 2006; Klapper et al., 2015). By enhancing employees' understanding of financial concepts and practices, MSMEs can improve operational efficiency, manage risks effectively, and seize opportunities for growth. Furthermore, the findings underscore the interconnectedness between financial literacy and human capital development. Participants acknowledged that investing in employee education and skill development is essential for fostering a culture of innovation, creativity, and continuous improvement. This echoes the findings of previous studies that have highlighted the positive relationship between human capital development and organizational performance (Manafi et al., 2017). By equipping employees with the necessary knowledge and skills, MSMEs can enhance productivity, reduce turnover rates, and gain a competitive edge in the marketplace.

The findings of this study are consistent with previous research that has examined the influence of financial literacy on business outcomes and organizational performance. For example, Kumar (2012) found that MSMEs with higher levels of financial literacy are better positioned to manage cash flow, access financing, and navigate financial challenges. Similarly, Levenson and Zoghi (2015) observed a positive association between financial literacy and self-employment success, highlighting the importance of financial knowledge for entrepreneurial ventures. Moreover, the findings extend existing knowledge by elucidating the mechanisms through which financial literacy influences human capital development within MSMEs. While previous research has primarily focused on the individual impacts of financial literacy or human capital on business outcomes, this study explores their interconnectedness and mutual reinforcement. By integrating financial literacy into human capital development initiatives, MSMEs can create a more knowledgeable, skilled, and resilient workforce capable of driving organizational growth and innovation. From a theoretical perspective, the findings contribute to our understanding of the linkages between financial literacy, human capital development, and organizational performance. The study highlights the role of financial literacy as a catalyst for human capital enhancement, emphasizing its significance in shaping organizational culture, values, and practices. This aligns with the human capital theory, which posits that investments in education, training, and skill development lead to increased productivity and competitiveness (Becker, 1993). By integrating financial literacy into the human capital development framework, the study offers a holistic perspective on how MSMEs can leverage their human capital to achieve strategic objectives and long-term success.

The findings have practical implications for policymakers, practitioners, and MSME stakeholders involved in promoting entrepreneurship, innovation, and sustainable

development. Firstly, policymakers can design targeted interventions and initiatives aimed at enhancing financial literacy among MSME owners, managers, and employees. By providing access to training programs, educational resources, and financial counseling services, policymakers can empower MSMEs to make informed decisions, manage risks effectively, and access financing opportunities. Secondly, practitioners in the field of entrepreneurship and small business management can leverage the findings to develop tailored strategies for integrating financial literacy into human capital development programs. This may involve incorporating financial education modules into employee training programs, offering incentives for participation in financial literacy initiatives, and fostering a culture of continuous learning and skill development within the organization. The study opens up avenues for future research to explore the dynamics of financial literacy and human capital development in greater depth. Firstly, longitudinal studies could be conducted to examine the long-term effects of financial literacy interventions on organizational performance and sustainability. By tracking changes in financial literacy levels, human capital development initiatives, and business outcomes over time, researchers can assess the efficacy and durability of intervention programs. Secondly, comparative studies could be undertaken to examine cross-cultural variations in the relationship between financial literacy, human capital development, and MSME performance. By comparing MSMEs operating in different cultural contexts, researchers can identify cultural factors that influence financial behavior, decision-making processes, and organizational practices. Thirdly, qualitative studies could be complemented with quantitative analyses to provide a more comprehensive understanding of the mechanisms through which financial literacy impacts human capital development and organizational performance. By triangulating qualitative insights with quantitative data, researchers can validate findings, test hypotheses, and uncover underlying trends and patterns.

This research findings offer valuable insights into the impact of financial literacy on human capital development within Micro, Small, and Medium Enterprises (MSMEs). By exploring the perceptions and experiences of MSME owners and employees, the study highlights the interconnectedness between financial literacy, decision-making processes, and organizational performance. The findings have theoretical implications for understanding the role of financial literacy in shaping human capital development and practical implications for promoting entrepreneurship, innovation, and sustainable development within MSMEs.

CONCLUSION

The qualitative study on the impact of financial literacy on human capital development in Micro, Small, and Medium Enterprises (MSMEs) has provided valuable insights into the intricate relationship between these two constructs. Through in-depth interviews with MSME owners and employees, several key findings have emerged, aligning with the objectives outlined in the introduction and the title of the research. The findings underscore the critical role of financial literacy in shaping decision-making processes and driving human capital development within MSMEs. Participants emphasized the importance of financial knowledge in guiding strategic planning, resource allocation, and investment decisions. Furthermore, the study highlighted the interconnectedness between financial literacy and human capital development, emphasizing their mutual reinforcement in fostering organizational success and sustainability.

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