

# **CHAPTER 1**

## **INTRODUCTION**

### **1.1 Background**

In this era of globalization, many businesses have begun to develop and become more advanced. As time goes by, many businesses have emerged, both small scale businesses and large scale businesses. One of the businesses that is starting to develop in Indonesia is Micro, Small and Medium Enterprises (MSMEs). Therefore, every business, whether small, medium or large scale, must have good competitiveness in order to be able to compete with other businesses.

In Law no. 20 of 2008 states that Micro, Small and Medium Enterprises (MSMEs) are a business run by a person or business entity that stands alone and is not part, either directly or indirectly, of a medium or large business. Where every business that is still operating must have good financial performance so that the business being run can develop well. In Indonesia, MSMEs have a very large role in economic development. Therefore, the government issued Law Number 20 of 2008 concerning Micro, Small and Medium Enterprises (MSMEs).

According to the 2019 Financial Services Authority, it is known that as many as 42.5% of the public have experiencing a condition where the income they have does not meet their needs daily life in the past year. Of these conditions 26.5% The community makes various efforts in the conditions referred to above, including

withdrawing savings of 33.6% and borrowing from friends or family 20.9%. Efforts made by the Financial Services Authority are still ongoing relatively low, loans from formal financial service institutions are 5.5% and loan with a pledge of 3.8%. With financial difficulties, right? caused only by low income levels, but it can be caused in managing finances.

Achievement of a person's welfare based on financial levels then it can be called financial satisfaction (Saurabh and Nandan, 2018). Financial satisfaction benchmarks are one indicator which is very important in achieving a more prosperous life. Because financial satisfaction has a very important effect on every individual. Where if every individual has financial satisfaction then the individual They will also feel satisfaction in their life

According to Xiao (2015), the definition of financial satisfaction is measured using aspects related to income, wealth and subjective financial well-being based on perceptions and evaluations of financial status. In addition, the definition of financial satisfaction according to Brügger, Hogreve, Holmlund, Kabadayi, & Löfgren (2017) is the perception of being able to maintain a standard of living as desired and being free to manage one's finances. An individual will be said happy and satisfied if their financial condition is good. Financial satisfaction starts from form of an individual's behavior that is related to how the individual behaves manage their financial income. Financial needs are said to be successful if someone able to meet all their needs in the short and

long term without there are difficulties or shortcomings. There are several variables that can influence financial satisfaction, namely financial literacy and financial attitude (Adiputra, 2021).

According to Sahi (2013) financial satisfaction is the level of satisfaction felt someone who has a relationship with various aspects of his financial condition. The level of individual satisfaction is closely related to welfare, where an individual has adequate financial conditions. The feeling of satisfaction that arises with the income received can also be called financial satisfaction. Apart from that, financial satisfaction can also be related to an individual's happiness with the finances they have. (Gerrans et al., 2013)

Effort government through the Financial Services Authority (OJK) and financial institutions in supporting entrepreneurial motivation MSME players and encourage equal distribution of financial literacy, in particular in terms financing is part of effort to uplifting entrepreneurship in each region. So efforts are needed to increase the financial literacy of owners or managers so that the growth of MSMEs in developing countries can be achieved. MSMEs with good financial literacy will be able to implement the strategic plan to identify opportunities and threat, have financial access adequate, as well respond to change the business climate is not stable, so the decision that will be made provide innovative solutions and directed to performance improvement MSMEs.

Lack of financial literacy is recognized as one of the factors that contributes to financial decisions is minimal information so that it can have a negative impact (OECD/ INFE 2009). Understanding financial literacy is now increasingly necessary for its creation residents who are qualified and have good financial intelligence, society required not only to master practices in order to keep up with market developments finance. This is intended to enable decision making regarding management finances are not wrong. Apart from that, good financial management will be able to do it improve individual life.

Previous research on the influence of financial literacy on financial satisfaction conducted by Adiputra (2021) stated that financial literacy has a significant effect on financial satisfaction, where people who have financial knowledge will achieve a level of satisfaction in planning and managing personal finances. However, Rusdini's (2021) research states that financial literacy has no influence on financial satisfaction. The implication of this research is that the results obtained are not in line with the theory that underlies individuals in making decisions with rational considerations and thoughts.

According to Mars in Herdjiono and Damanik (2016) financial attitude is an attitude referring to how a person feels about personal financial matters as measured by responses to a statement or opinion. Financial attitude will help individuals determine their attitudes and behavior both in terms of managing finances, budgeting finances and making financial decisions.



*Financial attitude* can be considered by looking at it from a person's psychological perspective when assessing the practice of financial management so that it becomes a principle in finance for creating and maintaining value in making financial decisions (Tania, 2014). Thus, it can be said that a person's financial attitude also influences the way a person manages their financial behavior. So that individuals who have a financial attitude can know how their personality carries out good financial management practices for the future. An attitude in good financial management starts with applying a good financial attitude too.

The results of previous research conducted by Darmawan & Pamungkas, (2019) show that there is an influence between financial attitude and financial satisfaction. This result is supported by research conducted by Arifin, (2018) which shows the same results. Meanwhile, research conducted by Armilia & Isbanah (2020); Prabowo & Asandimitra (2021) Mukhafi (2020) show different results, namely that financial attitude has no effect on financial satisfaction.

In this research, the objects used were all Medium Enterprises in the Kendari City area. Based on the results of interviews conducted on January 15 2023 with several MSME actors in Kendari City, researchers found that one of the obstacles to financial literacy and financial attitude that occurs in the field is that there are still some business actors whose financial reports are made in the form of simple financial records that only showing the amount of income, expenses and production operational costs, as well as a lack of understanding of good credit management so that they tend to manage their

finances less effectively and efficiently, including the large amount of liquidity in financial service institutions caused by their business credit loans.

Based on the research gaps and gap phenomena above, researchers are interested in researching the title "The influence of financial literacy and financial attitude on financial satisfaction (Study of Micro, Small and Medium Enterprises in Kendari City)".

## **1.2 Formulation of the problem**

Based on the background above, the author formulates the problem as follows:

1. Does Financial Literacy have a positive effect on Financial Satisfaction in Kendari City Micro, Small and Medium Enterprises?
2. Does Financial Attitude have a positive effect on Financial Satisfaction in Kendari City Micro, Small and Medium Enterprises?
3. Do Financial Literacy and Financial Attitude simultaneously have a positive effect on Financial Satisfaction in Kendari City Micro, Small and Medium Enterprises?

## **1.3 Research purposes**

Based on the research problem formulation, the aim of this research is

1. To find out whether Financial Literacy has a positive effect on Financial Satisfaction in Kendari City Micro, Small and Medium Enterprises?
2. To find out whether Financial Attitude has a positive effect on Financial Satisfaction in Kendari City Micro, Small and Medium Enterprises?
3. To find out whether Financial Literacy and Financial Attitude simultaneously have a positive effect on Financial Satisfaction in Kendari City Micro, Small and Medium Enterprises?

#### **1.4 Benefits of research**

Through this research, it is hoped that it can provide the following values and benefits:

1. It is hoped that this research can contribute to concepts or thoughts and studies regarding Financial Literacy and financial attitudes in terms of behavioral finance theory which regulates a person's financial psychological factors, and Financial Satisfaction. This research is also useful for increasing knowledge and information that can be used as a reference in developing further research.
2. Practical Benefits;
  - a) For practitioners; This research is input and evaluation for companies and organizations which are the objects of this research.

- b) For researchers; This research can clarify and deepen the concepts *Financial Literacy*, Financial Attitude and Financial Satisfaction so that researchers will better understand the relationship between theory and practice.