

# The Influence of Financial Literacy and Entrepreneur Competency on Financial Performance of Food MSMEs in Surabaya with Locus of Control as a Mediating Variable

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**Abstract:** This research was conducted to examine the influence of financial literacy and entrepreneur competency on the financial performance of food MSMEs in Surabaya with locus of control as a mediating variable. The research was conducted on food micro MSMEs in Surabaya with a sample of 100 business units. The data collected was analyzed using descriptive statistical tests and research methods using the SmartPLS program. The results of the analysis are that financial literacy, entrepreneur competency and locus of control have an influence on financial performance. Entrepreneur competency has an influence on locus of control. Another result is that financial literacy has no influence on locus of control. Of the five hypotheses proposed, four hypotheses were accepted and one hypothesis was rejected. Research findings state that locus of control mediates the relationship between entrepreneur competency and financial performance. But it does not mediate the relationship between financial literacy and financial performance.

**Keyword:** *Financial literacy, Entrepreneur competency, Locus of control, Financial Performance*

## I. INTRODUCTION

The increase in the number of MSMEs in Indonesia is very rapid, but the failure rate of MSME businesses is quite high, especially in the first year. Especially during the Covid-19 pandemic, this sector felt the biggest negative impact. Bank Indonesia said that 87.5 percent of MSMEs were affected by the pandemic, of the total, 93.2 percent experienced sales losses. An entrepreneur will be said to be successful if the financial condition of his business improves. Organizational success is described from performance achievements in a certain period. Corporate performance is a measure of an organization's success in operating its business (Al-Matari et al., 2014). This research uses resource based view theory, namely a theory that explains the performance of an organization that focuses on the internal resources owned by a company (Grant, 1991) and behavioral financial theory, namely a theory about how a person's actual behavior is in determining financial and psychological influences on the company. money markets and financial decisions (Nofsinger, 2001). The RBV perspective views resources as a source of competitive advantage if they add value to the company. Barney (1991) said that internal resources can provide the basis for small companies to produce superior products and services so as to increase organizational survival. The resource-based view (RBV) emphasizes the superiority of tangible and intangible assets in generating competitive advantage for an organization, thereby improving its performance (Kulathunga, 2020).

Financial behavioral theory is an approach that explains how a person invests or deals with finances, which is influenced by psychological factors. Financial behavior is the involvement of behavior in a person which includes emotions, traits, preferences and various things inherent in humans as intellectual and social creatures that interact and underlie the emergence of decisions to take action (Ricciard V and Simon H, 2000). Financial literacy improves the ability to manage finances in a complex financial environment, make unbiased and appropriate decisions, and be able to take advantage of opportunities. This empowers individuals and organizations to achieve competitive advantage thereby improving organizational financial performance. This research examines the influence of entrepreneurs' internal resources on company performance as seen from financial performance indicators. The success of a business is measured by the company's performance achievements, one of which is financial performance. Financial performance management is carried out by human resources who work in the company. Khan et al. (2021) argue that knowledge, behavior, attitudes, skills or competencies form a strong relationship with an entrepreneur's personality to produce financial performance in entrepreneurship.

An entrepreneur's financial literacy provides financial knowledge and risk management for higher returns. Entrepreneurs who have a strong understanding of financial literacy and entrepreneurial competence are better prepared to exercise control so that the decisions taken are unbiased and rational which can ultimately improve financial performance. They can set appropriate financial goals, develop effective financial strategies, and monitor key financial metrics. By integrating financial knowledge with broader entrepreneurial skills, entrepreneurs can optimize their business operations, make effective investment decisions, manage debt, and respond to market changes, all of which contribute to improved financial performance.

In a dynamic and increasingly competitive business environment, entrepreneurs are faced with many challenges. Entrepreneurs are expected to improve their abilities so they can operate companies well in risky economic conditions. An entrepreneur must have strategy and creativity to create innovative products or services. Entrepreneurs must ensure whether the products or services they create meet standards and are of good quality which will accelerate the growth of their business. Entrepreneurs must also have the potential to fulfill customer requests in a professional manner that will guarantee the achievement of competitive advantage. Khan et al. (2021) in their research said that entrepreneurs need financial knowledge, risk management, financial competence,

decision-making power, decision-making skills that are emotionally controlled with spiritual enthusiasm to improve financial performance.

The thing that is most often overlooked by MSME players is the lack of knowledge and skills to manage finances. The results of the 2019 OJK survey show that the financial literacy index of Indonesian society is still below 50 percent. Menike (2018) said that entrepreneurs who are financially educated are more successful than those who do not have financial knowledge. Kulathunga (2020) in his research said that financial literacy is also considered as strong intellectual capital in the performance of SMEs. Financial literacy will enable and improve SME performance in this complex business environment by strengthening the organization's knowledge base. In addition, financial literacy contributes to organizational decision-making processes thereby helping organizations to adapt to changes and take advantage of the opportunities these changes offer. Knowledge of finance or financial literacy is very important to improve company performance and give entrepreneurs an edge in making financial or investment decisions (Menike, 2018). Sanistasya et al. (2019) in their research found that financial literacy had a significant effect on small business performance. The research results of Khan et al. (2021) said that financial literacy has a positive influence on financial performance. Financial literacy is now recognized in all over world as factor important in stability economy and finance as well as development performance SMEs (Eniola, 2016). A different opinion was expressed by Maulatuzulfa and Rokhmania (2022) that literacy skills in preparing budgets cannot improve the performance of MSMEs, meaning that MSME business actors who have good literacy skills in preparing budgets may not necessarily be able to improve MSME performance. Financial literacy enables MSME owners to analyze costs, identify areas of inefficiency, and implement cost-saving measures. By understanding financial reports and financial ratios, they can monitor profitability and take action to improve. This includes optimizing pricing strategies, reducing unnecessary costs and negotiating better terms with suppliers. This is why financial literacy plays an important role in the financial performance of MSMEs in making the right financial decisions and managing resources effectively which ultimately leads to better financial results for the business.

Competence is an intangible and valuable resource for achieving business success according to the Resource Based View (RBV) theory. Entrepreneurial competency is the ability possessed by business-minded people to create new business ideas or improve existing ones (Esubalew & Raghurama, 2020). Furthermore, according to Esubalew & Raghurama (2020) that entrepreneurial competence helps owners to overcome company problems in a unique way so that entrepreneurs with a high level of competence can take opportunities from problems. Entrepreneurial competence makes a positive contribution to the performance of MSMEs. Aftab et al. (2022) said that entrepreneur competency has a positive influence on the financial performance of MSMEs. This opinion is in line with the research results of Maulatuzulfa and Rokhmania (2022), namely that human resource competence has a positive influence on the performance of MSMEs in Sidoarjo. A different opinion was expressed by Esubalew & Raghurama (2020) that entrepreneur competency has no influence on the performance of MSMEs. This result different due to differences in culture and economic status of the research sample, namely MSMEs in Ethiopia.

Locus of Control emphasizes a person's condition to catalyze the success or failure achieved (Budiasni & Ayuni, 2022). In other words, a person's locus of control plays a role in a person's achievement of success or failure because it is related to a person's belief in life achievement targets. Understanding good financial behavior is related to how a person can interpret locus of control. Putri PT (2020) says someone who has A good locus of control means you are better prepared to face challenges, including financial challenges. Locus of control is self-control which has a role in achieving success or failure because it is related to a person's belief in achieving targets (Budiasni & Ayuni, 2020). Research results from Darmawan (2021) say that locus of control has an influencesignificant positive impact on the financial performance of MSMEs in Banjar Patroman City. In other words, a person must be able to control himself well so that he can feel confident in his achievementswhich are expected. Budiasni & Ayuni (2020) in their research said that locus of control has an important role in supporting the influence of financial literacy and financial inclusion on financial performance. MSMEs. Entrepreneurial competencies and intentions (internal locus of control) depend on internal planning and significantly impact entrepreneurial behavior and performance (Gonzalez-Lopez et al., 2020). Botsari and Stampultzis (2019) found that competency and locus of control has a significant positive effect on entrepreneurial performance. Khan et al. (2021) say that an entrepreneur who has financial literacy can determine successful entrepreneurial performance with good self-control, so that locus of control is used as a mediator in their research. This is in accordance with research by Kartasari et al. (2018b, 2018c) with research results, locus of control mediates the relationship between financial literacy and financial performance.

The research chose the MSME research object in Surabaya because of its prospects business Surabaya Still positive Because growth population class intermediate. Surabaya own potency economy which big with all opportunity, facility and superiority geographical. Matter this make Surabaya became wrong one gate trading most importantly in Indonesiapart east. Surabaya city with climate tradi ngandbusiness which conducive as well as infrastructure which adequate. During the Covid-19 pandemic, the economic growth of the city of Surabaya exceeded the performance of East Java. In 2021 Surabaya's economy will grow 4.29 percent. Based on the phenomena, theories and previous research described above, there are differences of opinion or research gaps, thus encouraging researchers to conduct research by examining the influence of financial literacy, entrepreneur competency, and locus of control implemented in MSMEs in the food industry in Surabaya to improve financial performance.

## II. LITERATURE REVIEW

### A. Behavioral finance

Financial behavior or financial behavior was introduced by Kahneman and Tversky (1979) who said that a person's behavior in making financial decisions depends on conditions. Behavioral finance according to Kumar (2017) is a modern field of study in finance which aims to combine behavioral and cognitive psychological theories with conventional economics and finance to provide an explanation of the reasons why people make irrational financial decisions. Financial behavior explains how a person treats, manages and uses the financial resources they have (Suryanto, 2017).

**B. Resource Based View**

Penrose in 1959 introduced the famous human resource theory called Resource Based View and developed into a study of management science, especially company performance. The RBV concept divides resources into two, namely sources intangible resources and tangible resources. In RBV theory having strategic resources as an attribute defines an asset that creates sustainable competitive advantage (Barney, Wright, & Ketchen, 2001). MSMEs are business entities that consist of a collection of resources with unique capabilities, capable of supporting the implementation of a strategy to face competition and achieve business goals optimally. That set of resource capabilities continues to evolve dynamically to obtain above average profits. Financial literacy and entrepreneur competency are resources that MSMEs have for improve business performance.

**C. Financial Literacy**

Financial Literacy according to the Financial Services Authority (2013) is an activity to expand the knowledge, abilities and trust of customers and the public so that they are able to manage their respective finances well. Financial literacy according to Usaid (2009) in Abiodun & Harry (2015) is defined as a person's ability to make financing decisions that best suit their business performance at various stages of business growth, knowing the best place to get desired products and services and having good interaction skills. with suppliers of products and services. Khan et al. (2021) in their research found that financial literacy has a positive effect on financial performance. In contrast to the research of Khan et al. (2021), this research was conducted on food business MSMEs as research objects. The research results of Dahmen & Rodriguez (2014) stated that financial literacy has a positive relationship with financial performance. Mutlu and Ozer's (2021) research shows that financial literacy influences locus of control. Khan et al. (2021) also found that financial literacy has a positive relationship with locus of control. This agrees with research by Aren and Aydemir (2015) which found that individuals with high financial literacy will have a high locus of control. The hypothesis is:

H1: Financial literacy influences financial performance.

H2: Financial literacy influences locus of control.

**D. Entrepreneur Competency**

Entrepreneur competency is the ability possessed by business-minded people to create new business ideas or improve existing ones (Esubalew & Raghurama, 2020). Ibidunni et al. (2021) define entrepreneurial competence as the ability that entrepreneurs develop and embed into their company's cultural operating patterns to maintain performance and improve their competitive position in the industry. Khan et al. (2021) in their research found that entrepreneurial competency has a significant relationship with locus of control. This agrees with research by Prawitz and Cohart (2016) which found that entrepreneurial competency influences locus of control. Hamzah and Othman (2023) argue that if entrepreneurs increase their competence then they can better control their actions to increase their career success. Ansong (2017) said that SMEs managed by competent managers can achieve good financial results. A similar opinion was also expressed by Nieuwoudt et al. (2017) that if entrepreneurial competence increases then financial performance will also increase. This is different from research by Esubalew & Raghurama (2020) which says that entrepreneur competency

does not have an influence on the performance of MSMEs. The hypothesis is:

H3: Entrepreneur competency influences locus of control.

H5: Entrepreneur competency influences financial performance.

**E. Locus of Control**

The initial phase of self-control research in the Behavioral Finance domain was popularized by research by Thaler & Shefrin (1981) with a hypothesis which revealed that self-control, mental accounting and framing were included in biased behavior in saving decisions (Marino, 2019). Behavioral bias is financial behavior that is influenced by psychological factors in decision making (Humairo and Sartika, 2021). In the behavioral finance concept, there is selection bias as one of the behavioral biases. Selection bias is a person's tendency to seek information and be more selective in making decisions. Lopez et al. (2020) examined the relationship between competence and locus of control on entrepreneurial performance, the results show that there is a significant relationship between competence and locus of control on entrepreneurial performance. Botsari and Stampultzis (2020) examined the relationship between self-thinking, competence, locus of control, and self-esteem on the work value of entrepreneurial performance. The results found that competence and locus of control have a significant relationship with the work value of entrepreneurial performance. The hypothesis is:

H4: Locus of Control influences Financial Performance.

**F. Financial Performance**

Financial Performance according to Fraser (2010) is defined as an organization's achievement in managing operations and funding efficiently and effectively so that productivity is achieved, high sales value, above average profitability, sufficient level of fund flow, and a profitable rate of return on investment. Naz et al. (2016) define financial performance as referring to how healthy a company's finances are over a certain period of time. In this context, financial performance is used to create higher sales, profitability and business value for shareholders through asset management, funding, equity, income, current and non-current expenses. According to Meiyana & Aisyah (2019), financial performance is a description of the achievements of the business activities carried out by a company. Performance can be measured by financial and non-financial indicators. Financial indicators are measured from profitability and sales, while non-financial indicators are measured from factors achieving quality results, market share, customer satisfaction, new product development and market effectiveness (Venkatraman and Ramanujam, 1986). The purpose of performance measurement is to obtain useful information relating to the flow of funds, efficiency and effectiveness of the use of funds in order to generate income. Financial performance measurement also encourages managers to make the right decisions for the business.

**III. RESEARCH ISSUES AND METHODOLOGY****A. Research Issues**

This research is quantitative research that tests hypotheses. The aim of this research is to examine the influence of financial literacy and entrepreneurial competency on financial performance with the mediation of locus of control.



**B. Methodology**

This research uses primary data, namely data obtained from original sources by answering several questions related to the research. Primary data was collected by distributing questionnaires to research respondents. The respondents of this research are MSME owners or people who run MSME businesses in Surabaya .

The population in this research are MSME owners of micro-scale food businesses in Surabaya. The number of food business MSMEs in Surabaya based on data from the Ministry of Cooperatives and MSMEs is 8,221. The criteria for MSMEs used as samples are:

1. Micro business with a maximum turnover of IDR 300,000,000 per year
2. Micro food business domiciled in Surabaya
3. Managers are business owners.

The sample size used in this research is based on the minimum requirements for SEM-PLS analysis needs of 60. The sample used in this research is 100 so the sample size requirements are met. The sampling technique used in this research was purposive Convenience sampling , namely food business MSMEs who are easiest to contact, known and willing to work together . The data analysis technique used is SEM PLS.

**IV. RESEARCH RESULTS AND DISCUSSION**

**A. Descriptive Statistics**

Description of respondents based on gender from the questionnaire results is shown in Table 4.1 as follows:

Table 4.1 Respondent's Gender

| Gender | Amount | Percentage |
|--------|--------|------------|
| Man    | 51     | 51%        |
| Woman  | 49     | 49%        |
| Total  | 100    | 100%       |

Source: Results of questionnaire data collection, processed.

Table 4.1 above shows the characteristics of respondents based on gender classification, namely 49 people (49 percent) are men and 51 people (51 percent) are women. Based on the description above, there are more MSME owners who are women, this is probably because the business they run is food.

Table 4.2 Age of Respondents

| Age (years) | Amount | Percentage |
|-------------|--------|------------|
| <20         | 2      | 2 %        |
| 20-40       | 68     | 68%        |
| >40         | 30     | 30%        |
| Total       | 100    | 100%       |

Source: Results of questionnaire data collection, processed.

The results of distributing the questionnaire showed that there were 2 respondents aged less than 20 years (2 percent), aged 20 years to 40 years there were 68 respondents (68 percent), and aged 40 years and over there were 30 respondents (30 percent). Based on this description, MSME owners are mostly aged 20 to 40 years, where this age is classified as productive age .

Table 4.3 Respondents' last education

| Last education     | Amount | Percentage |
|--------------------|--------|------------|
| Junior high school | 6      | 6%         |
| Senior high school | 50     | 50%        |
| Bachelor           | 44     | 44%        |
| Total              | 100    | 100%       |

Source: Results of questionnaire data collection, processed.

The table above shows the respondents' latest education, namely: 6 respondents (6%) had an education up to junior high school, 50 respondents (50%) had an education up to high school, and 44 respondents (44%) had an education up to a bachelor's degree. The results of the description can be concluded that most MSME owners have at least a high school education .

Table 4.4 Length of Business

| Length of Work (Years) | Amount | Percentage |
|------------------------|--------|------------|
| Less than 2 years      | 8      | 8%         |
| 2 years to 5 years     | 59     | 59%        |
| More than 5 years      | 33     | 33%        |
| Total                  | 100    | 100%       |

Source: Results of questionnaire data collection, processed.

The table above shows that 8 respondents (8 percent) have had a business for less than 2 years, 59 respondents (59 percent) have had a business for 2 to 5 years, and 33 respondents (33 percent) have had a business for more than 5 years. Based on this data, most respondents have businesses of 2 years to 5 years .

Table 4.5 Total Annual Income

| Annual income   | Frequency | Percent | Valid Percent | Total (%) |
|---|-----------|---------|---------------|-----------|
| Less than IDR 100,000,000                               | 7         | 7       | 7             | 7         |
| More than IDR 100,000,000 but less than IDR 200,000,000 | 54        | 54      | 54            | 61        |
| More than IDR 200,000,000 but less than IDR 300,000,000 | 39        | 39      | 39            | 100       |
| Total   | 100       | 100     | 100           |           |

Source: Results of questionnaire data collection, processed.

The results of the questionnaire showed that as many as 7 MSMEs (7 percent) had income of less than IDR 100,000,000 per year, 54 MSMEs (54 percent) had income of more than IDR 100,000,000 but less than IDR 200,000,000 and as many as 39 MSMEs ( 39 percent) had an income of more than IDR 200,000,000 but less than IDR 300,000,000 .

**B. Data Testing Results**

Table 4. 6 Loading Factor Values

| Variable           | Indicator | Loading Factor | Rule of Thumb | Conclusion |
|--------------------|-----------|----------------|---------------|------------|
| Financial Literacy | FL1       | 0.836          | 0.5           | Valid      |
|                    | FL2       | 0.747          | 0.5           | Valid      |
|                    | FL3       | 0.761          | 0.5           | Valid      |
| Entrepreneur       | EC1       | 0.607          | 0.5           | Valid      |

|                       |     |       |     |       |
|-----------------------|-----|-------|-----|-------|
| Competency            | EC2 | 0.781 | 0.5 | Valid |
|                       | EC4 | 0.900 | 0.5 | Valid |
| Locus of Control      | LC2 | 0.671 | 0.5 | Valid |
|                       | LC3 | 0.894 | 0.5 | Valid |
| Financial Performance | FP1 | 0.812 | 0.5 | Valid |
|                       | FP2 | 0.768 | 0.5 | Valid |
|                       | FP3 | 0.796 | 0.5 | Valid |
|                       | FP4 | 0.674 | 0.5 | Valid |

Based on the results of the second data processing, by eliminating several invalid instruments, the results obtained are in accordance with table 4.6 above . The results of data processing show that the loading factor values for all indicators are above 0.5 so that all data is declared valid.

The next test is a reliability test which is measured using composite reliability . A variable is declared reliable if the composite reliability value is at least 0.7. Composite reliability data for each variable is presented in Table 4.7 below :

Table 4. 7 Reliability Tests

| Variable | Composite Reliability |
|----------|-----------------------|
| FL       | 0.825                 |
| EC       | 0.812                 |
| LC       | 0.766                 |
| F.P      | 0.848                 |

Source: PLS test results

The results of the reliability test above show that the composite reliability value for all variables is above 0.7, so it can be said that the variables in this study are reliable.

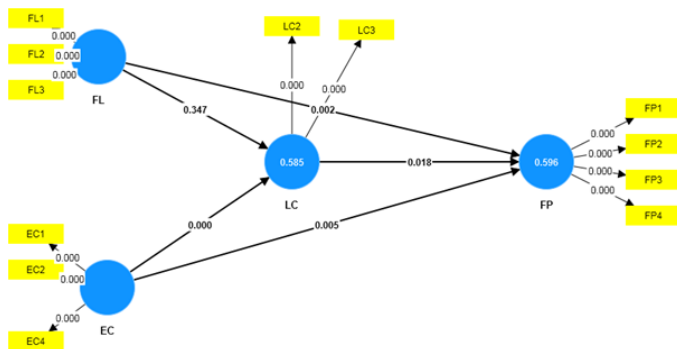


Figure 4.1 Hypothesis Test Results

As for testing the hypothesis, it can be done by looking at the t-table values and probability values. For hypothesis testing, the t-table value is used with  $df = 100 - 2 = 98$  and the 5% probability is 1.661. Hypothesis test results are presented in Table 4.15.

Table 4. 8 Inner Weight Tests with Bootstrap Samples

| Hypothesis  | Path coefficient | T statistic | Nilai P      | Keterangan      |
|---|------------------|-------------|--------------|-----------------|
| Financial Literacy (FL)->Financial Performance (FP) | 0.247            | 3.105       | <b>0.002</b> | <b>Diterima</b> |
| Financial Literacy (FL) ->Locus of Control (LC)     | 0.069            | 0.945       | <b>0.347</b> | <b>Ditolak</b>  |

|   |       |        |              |                 |
|---|-------|--------|--------------|-----------------|
| Entrepreneur Competency (EC) -> Locus of Control (LC)       | 0.727 | 13.742 | <b>0.000</b> | <b>Accepted</b> |
| Locus of Control (L C ) ->Financial Performance (FP)        | 0.309 | 2,408  | <b>0.018</b> | <b>Accepted</b> |
| Entrepreneurial Competency (EC)->Financial Performance (FP) | 0.346 | 2,879  | <b>0.005</b> | <b>Accepted</b> |

Source: PLS test results

The research results show that financial literacy has a significant effect on the financial performance of food business MSMEs in Surabaya. Based on the results of the hypothesis test, the calculated t value is greater than the t table and the probability value shows significant results. The results of the positive influence show a consistent relationship, meaning that if the level of financial literacy improves, the financial performance of the business will increase. The results of this research mean that if food MSMEs in Surabaya have a good or high level of financial knowledge or financial literacy, the entrepreneurs will be able to use their financial skills in making various appropriate decisions regarding their finances. Soetiono (2018) said that with financial literacy, the public or entrepreneurs will have an understanding of the financial products offered by formal financial institutions and avoid investment activities in unclear financial instruments. Financial knowledge, behavior and attitudes aim to build society so that it has a strong financial foundation in facing various financial conditions.

The research results show that financial literacy has no effect on locus of control. Based on the results of the hypothesis test, it was found that the calculated t value was smaller than the t table and the probability value showed that the results were not significant. Thus, it can be said that MSMEs who have the ability, behavior and financial awareness do not necessarily have good self-control. The results of this research are in line with Puspitarini's (2017) research which found that external locus of control has no effect on SME performance. This research contradicts research by Darmawan (2021) which aims to determine the influence of demographic factors, locus of control , financial literacy and financial inclusion on the financial performance of MSMEs. The results of his research found that locus of control has a positive and significant influence on the financial performance of MSMEs.

The research results show that entrepreneurial competency influences the locus of control of MSMEs in the food business in Surabaya. Based on the results of the hypothesis test, the calculated t value is greater than the t table and the probability value shows significant results. The results of the positive influence show a parallel relationship, meaning that if the level of entrepreneurial competency increases, the locus of control will increase.This result means that an entrepreneur who has good competence will have good self-control in actions, decisions and environmental control. The results of this research agree with research by Prawitz and Cohart (2016) which found that entrepreneurial competency influences locus of control. Research by Khan et al. (2021) also found that entrepreneurial competency has a significant

relationship with locus of control. In other words, an entrepreneur who has good abilities in running his business will be better at controlling decision makers. An entrepreneur who has good competence can control his actions and business decisions.

The research results show that financial literacy has a significant effect on the financial performance of food business MSMEs in Surabaya. Based on the results of the hypothesis test, the calculated t value is greater than the t table and the probability value shows significant results. The results of the positive influence show a consistent relationship, meaning that if the level of financial literacy improves, the financial performance of the business will increase. The results of this study agree with research by Lopez et al . (2020) who examined the relationship between competence and locus of control on entrepreneurial performance, the results show that there is a significant relationship between competence and locus of control on entrepreneurial performance. Mien and Thao's (2015) research found that locus of control has a bad effect on financial management. A person who is able to control actions and the environment can run his business well thereby improving the financial performance of his business.

The research results show that entrepreneurial competency has a significant effect on the financial performance of MSMEs in the food business in Surabaya. Based on the results of the hypothesis test, the calculated t value is greater than the t table and the probability value shows significant results. The results of the positive influence show a consistent relationship, meaning that if entrepreneurial competency improves, the financial performance of the business will increase. The results of this study agree with Khan et al . (2021) who found that entrepreneurial competency has a positive effect on financial performance . Nwachukwu et al . (2017) in their research also found that entrepreneurial competency is positively related to company performance. So someone with the ability to take advantage of opportunities, maintain good relationships with customers, be conceptual, organize and think strategically can improve the financial performance of a business. Competent entrepreneurs are often more innovative in developing new business strategies. This may include developing new products or services that can increase revenue and profits.

Table 4. 9 Indirect Effects

| Hypothesis   | Path Coefficient | T Statistics | P value | Information |
|--|------------------|--------------|---------|-------------|
| Financial Literacy (FL) ->Locus of Control ( LC) ->Financial Performance (FP)      | 0.021            | 0.855        | 0.395   | Rejected    |
| Entrepreneur Competency (EC) ->Locus of Control ( LC) ->Financial Performance (FP) | 0.225            | 2,242        | 0.027   | Accepted    |

Source: PLS test results

The results of hypothesis testing from the PLS analysis show that there is an indirect influence between entrepreneurial competency on financial performance through locus of control with a positive value. It can be concluded that locus of control mediates the relationship between

entrepreneurial competency and financial performance. This means that someone with good entrepreneurial skills will improve the financial performance of their business and with self-control will be more careful in making decisions related to their business finances. An entrepreneur who has a locus of control tends to develop their competence because they feel they have control over their ability to improve business results. The results of this study agree with the research of Khan et al . (2021) who found that locus of control mediates the relationship between entrepreneurial competence and the financial performance of MSMEs.

The results of the hypothesis test from the PLS analysis show that financial literacy has no effect on financial performance through locus of control. It can be concluded that locus of control does not mediate the relationship between financial literacy and financial performance. These results mean that someone who has financial knowledge, financial behavior and financial awareness can manage their business finances well without being influenced by self-control. The results of this study are different from the research of Khan et al. (2021) who found that locus of control mediates the relationship between financial literacy and the financial performance of MSMEs. MSME players who have better financial literacy will be able, through good self-control, to manage their finances thereby improving their business performance .

## CONCLUSION

This research was conducted with the aim of examining the influence of financial literacy and entrepreneurial competency on the financial performance of food business MSMEs in Surabaya with locus of control as mediation. The research results based on the results of data analysis tests using PLS are as follows:

1. The research results state that financial literacy has a significant effect on financial performance . This means that the higher the financial literacy of MSME actors in Surabaya, the greater the financial performance of their businesses.
2. The research results stated that financial literacy had no significant effect on locus of control . This means that MSME actors who have financial literacy have no effect on self-control in making decisions.
3. The research results state that entrepreneur competency has a significant effect on locus of control . This means that the higher the competence of MSME actors in Surabaya, the better the influence on their self-control in acting.
4. The research results state that locus of control has a significant effect on financial performance . This means that the higher the self-control of MSME actors in Surabaya in acting and making decisions, the better the financial performance of their business will be.
5. The results of this research state that entrepreneurial competency has a significant effect on financial performance . This means that the higher the competency of MSME actors in Surabaya, the greater the financial performance of their businesses.
6. The results of this research state that entrepreneurial competency influences financial performance through locus of control. This means that locus of control mediates the relationship between entrepreneurial competency and financial performance .
7. The results of this study state that financial literacy has no effect on financial performance through locus of control. This means that locus of control cannot be a



mediating variable between entrepreneurial competency and financial performance .

This research has limitations, namely only on micro food businesses in Surabaya, therefore suggestions for further research are with a wider scope, for example on all MSMEs in Surabaya so that the research results can be useful for all MSME sectors. Future research can also add indicators to measure business financial performance so that the results obtained are more accurate.

Suggestions that can be given based on the research results are as follows:

1. Increasing financial literacy for MSME players can improve the financial performance of their businesses, so it is necessary to increase training or seminars for MSME players to further increase the level of knowledge and understanding of finance.
2. Increasing entrepreneurial competence is also very important to improve the financial performance of MSMEs so that MSME players are expected to continue learning and increasing their knowledge so they can innovate for the sustainability of their business.

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