

CONNECTING THE DOTS: HOW DIGITAL FINANCIAL LITERACY AND LOCUS OF CONTROL DRIVE FINANCIAL SUCCESS THROUGH FINANCIAL BEHAVIOR

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Abstrak

Penelitian ini bertujuan untuk mengetahui pengaruh literasi keuangan digital dan *locus of control* terhadap kinerja keuangan UMKM dengan Perilaku keuangan sebagai variabel mediasi. Sampel penelitian ini yaitu UMKM yang ada di Kabupaten Banyumas, Jawa Tengah, Indonesia. Penelitian ini menggunakan alat analisis *Structural Equation Modelling* (SEM) berbasis *Partial Least Square* (PLS yang terdiri dari inner model dan outer model. Penelitian ini menggunakan teknik *convenience sampling* dan mengumpulkan 177 responden. Temuan hasil penelitian ini menunjukkan bahwa literasi keuangan digital dan *locus of control* berpengaruh positif dan signifikan terhadap perilaku keuangan dan kinerja keuangan UMKM. Perilaku keuangan juga berpengaruh positif dan signifikan dalam meningkatkan kinerja keuangan UMKM. Hasil pengujian mediasi dalam penelitian ini menjelaskan bahwa perilaku keuangan dapat memediasi *locus of control* dan literasi keuangan digital terhadap kinerja keuangan. Hasil penelitian didasarkan pada konsep *theory of planned behavior* yang menyatakan bahwa perilaku manusia dapat dipengaruhi oleh niat atau motivasi individu dan sumber daya yang berupa pengetahuan dan keterampilan yang dapat meningkatkan kinerja keuangan UMKM. Penelitian ini berkontribusi memberikan rekomendasi bagi pelaku UMKM, pemerintah dan lembaga keuangan untuk meningkatkan literasi keuangan digital dan penguatan *locus of control* guna mendorong kinerja keuangan yang lebih baik.

Kata Kunci: Literasi Keuangan Digital, Locus of Control, Perilaku Keuangan, Kinerja Keuangan
JEL Code: G40, G41, G53

Abstract

This study aims to determine the effect of digital financial literacy and locus of control on the financial performance of MSMEs with financial behavior as a mediating variable. The sample of this research is MSMEs in Banyumas Regency, Central Java, Indonesia. This study uses a Structural Equation Modeling (SEM) analysis tool based on Partial Least Square (PLS) consisting of inner and outer models. This study used a convenience sampling technique and collected 177 respondents. The findings of this study indicate that digital financial literacy and locus of control have a positive and significant effect on the financial behavior and financial performance of MSMEs. Financial behavior also has a positive and significant impact on improving the financial performance of MSMEs. This study's mediation testing results explain that financial behavior can mediate locus of control and digital financial literacy on financial performance. The research results are based on the theory of planned behavior, which states that human behavior can be influenced by individual intentions or motivations and resources in the form of knowledge and skills that can improve the financial performance of MSMEs. This research contributes to providing recommendations for MSMEs, government and financial institutions to improve digital financial literacy and strengthen the locus of control to encourage better financial performance.

Keywords: Digital Financial Literacy, Locus of Control, Financial Behavior, Financial Performance
JEL Code: G40, G41, G53

INTRODUCTION

The business sector known as Micro, Small, and Medium Enterprises (MSMEs) is crucial to a nation's economy. As we move into the digital age, the government is giving the MSME sector's expansion and development more attention because of its importance to the Indonesian economy. MSMEs are a great place to develop productive jobs because they require a lot of labor ([Rahmawati et al., 2023](#)).

According to the [Indonesian Chamber of Commerce and Industry \(2023\)](#), 66 million MSME business actors contribute IDR 9,580 trillion to the Gross Domestic Product (GDP). MSMEs employ approximately 117 million individuals, accounting for 97% of the workforce in Indonesia. The [Communication and Informatics Office of Banyumas Regency \(2023, 2024\)](#) Reported statistical data on the number of MSMEs from 202 to 2023 has increased in 2022, there were 84,350 MSMEs to 89,553 in 2023. According to the [Central Java Province Small and Medium Enterprises Cooperative Office](#) records, 8,559 MSMEs were still active in 2023 in Banyumas Regency.

Enhancing MSMEs' financial performance is correlated with their economic contribution to a nation. Performance reflects the effectiveness of a business's financial management ([Octavina & Rita, 2021](#)). Good financial performance shows a business can generate profits ([Budiasni et al., 2023](#)). Financial performance can be measured by increased revenue, profits, and ability to manage finances ([Nopiyani & Indiani, 2023](#)). In addition, financial performance is needed to determine and illuminate how successful a business is based on the financial actions that have been taken ([Winarsih et al., 2021](#)). According to [Srirejeki et al., \(2024\)](#) and [Widianingsih et al., \(2023\)](#), the financial performance of MSMEs in Banyumas Regency faces challenges in the form of low digital financial literacy owned by business actors, as evidenced by the receipt of 588 complaints from financial service consumers by the OJK. The submissions relate to financial technology, bold loans, and illegal investments. According to [Awwaliyah et al., \(2023\)](#) and [Mutlu & Özer, \(2022\)](#), there are several factors that can influence the financial performance of MSMEs, namely digital financial literacy and locus of control.

The first factor is digital financial literacy, which can improve financial performance. Digital financial literacy includes understanding digital financial accounts, internet banking, interest rates, inflation, use of QRIS, saving, debt management, financial reports, and working capital to improve the financial performance of MSMEs ([Awwaliyah et al., 2023](#)). Post-COVID-19, digital financial technology has increased because it facilitates access to payments in daily transactions. Financial services have evolved into digital financial literacy that covers all aspects needed to use the digital financial system responsibly, informatively, and transformatively ([Lyons, 2021](#)).

The use of mobile banking, digital wallets, and the Quick Response Code Indonesia Standard (QRIS) as Indonesia's digital payment system faces many challenges, such as security and usage aspects that have the potential for fraud and data theft as well as the low public understanding of digital finance, especially the QRIS payment system ([Anggraini et al., 2024](#); [Rachman et al., 2024](#)). Using non-cash transactions helps MSMEs accelerate their operations and expand their customer base ([Manurung et al., 2024](#)). Digital financial devices encourage the increasing need for digital financial literacy, including the ability to navigate and utilize digital platforms effectively ([Pratama et al., 2024](#)). The government is trying to optimize and minimize digital financial challenges, especially for MSMEs, by increasing understanding of digital finance and providing digital financial literacy to MSMEs. Research related to digital financial literacy in improving the financial performance of MSMEs is still lacking ([Awwaliyah et al., 2023](#)). However, in general, according to [Anshika et al., \(2021\)](#), [Mukarromah et al., \(2020\)](#), [Putri et al., \(2022\)](#), [Hanifah & Innayah, \(2024\)](#) stated that financial literacy supports improving the financial performance of MSMEs. Meanwhile, [Desmiyawati et al., \(2023\)](#) and [Fitria et al., \(2021\)](#) stated that financial literacy does not impact the financial performance of MSMEs.

The second factor is the locus of control, essential to enhancing MSMEs' financial performance ([Oppong et al., 2024](#); [Zheng & Liang, 2023](#)). Locus of control refers to a person's belief that fate and events experienced are determined by the control that comes from themselves, both internally and externally ([Oppong et al., 2024](#)). High self-confidence will enhance MSMEs' financial performance ([Darmawan et al., 2021](#)). Locus of control becomes a controller in life and one factor that influences decision-making ([Lyons et al., 2006](#)). In May 2023, a report by [the Financial Services Authority \(OJK\)](#), online loans and fintech peer-to-peer (P2P) lending had a financing performance of IDR 51.46 trillion, up 28.11 percent year over year. 38.39 percent came from financing MSMEs, with IDR 15.63 trillion going to individual MSMEs and IDR 4.13 trillion to commercial organizations.

The increase in online loan financing reflects the functioning of the intermediation function and the high demand from the public. MSMEs must make wise financial choices, such as choosing online loans permitted by the OJK and avoiding online loans that the OJK does not permit. Therefore, a locus of control is needed to control oneself in taking risks and making debt decisions ([Budiasni et al., 2023](#)). According to [Maulana et al., \(2023\)](#) and [Rohmah et al., \(2022\)](#), the locus of control helps MSMEs improve their financial performance. Meanwhile, according to [Sukmawati & Amalia, \(2024\)](#), the locus of control does not impact the financial performance of MSMEs.

As previously explained, prior research has yielded conflicting findings about how locus of control and digital financial literacy enhance the financial performance of MSMEs. Therefore, researchers are interested in using financial behavior as a mediating variable. Financial decision-making and regulating individual motives and business goals are financial behavior ([Humaira & Sagoro, 2018](#)). Good financial behavior includes preparing financial records, documenting cash flow, planning expenses, managing credit cards, and planning to save to improve financial performance ([Awwaliyah et al., 2023](#)).

Digital financial literacy possessed by a business actor will increase effective and efficient financial management ([Risman, 2024](#)). A high degree of digital financial literacy will inevitably enable one to make sound financial decisions ([Alkhawaldeh et al., 2023](#)). Financial behavior is improved by digital financial literacy ([Erlangga & Krisnawati, 2020](#); [Kamilah et al., 2024](#); [Mukti et al., 2022](#); [Watiningrum et al., 2024](#)). Additionally, digital financial literacy does not impact financial behavior ([Julaiha et al., 2023](#); [Sari et al., 2022](#)).

The locus of control possessed by business actors will affect their financial management behavior ([Nita & Reina, 2024](#)). A person with good self-control will tend to have good financial behavior ([Pramesty et al., 2024](#)). According to [Hutapea et al., \(2023\)](#) and [Sudarmawanti et al., \(2024\)](#), locus of control can improve a person's financial behavior. Meanwhile, according to ([Hendry et al., 2022](#)), locus of control does not affect financial behavior.

This study develops the study of [Awwaliyah et al., \(2023\)](#) by adding an independent variable, namely the Locus of Control. Using financial behavior as a mediating variable, it seeks to assess the effects of locus of control and digital financial literacy on the financial performance of MSMEs. The idea of planned behavior is used in this study to evaluate how each variable affects MSMEs' financial performance and how it acts as a mediator between the two.

LITERATUR REVIEW AND HYPOTHESES DEVELOPMENT

Theory of Planned Behavior

According to [Ajzen, \(1991\)](#), the Theory of Planned Behavior (TPB) states that behavior is something that has been planned; in other words, it can be defined as an individual's intention or tendency to carry out a behavior using the information that is available to him and taking the consequences of his actions into consideration before making a decision. According to [Ajzen, \(1991\)](#), a behavior's components include attitudes and ideas about the behavior, subjective norms derived from social pressure, local norms associated with the behavior, and personal perceptions. According to this theory, financial conduct is a mediating variable in the relationship between locus of control, digital financial literacy characteristics, and financial success ([Rasjid, 2022](#); [Setiani et al., 2024](#)).

Digital Financial Literacy on Financial Performance

In line with the TPB theory, someone with a good understanding of finances and the ability to manage finances can improve business performance. The era of digitalization, especially in the development of financial technology, is very rapid, giving birth to innovations in financial services that facilitate all finance-related transactions ([Pratama et al., 2023](#)). Financial technology can bring great opportunities and potential for business growth. [Prasad et al., \(2018\)](#) claimed that many people have utilized digital platforms to conduct their financial activities and are aware of the significance of digital financial literacy. Based on the statement above, participants in MSMEs need to have digital financial literacy to enhance their understanding and utilization of the digital financial system. As seen by rising sales growth, it will affect financial performance ([Awwaliyah et al., 2023](#)). Finding from [Daud et al. \(2022\)](#), [Ranatunga et al. \(2020\)](#), and [Wulandari et al. \(2024\)](#) supports this theory by indicating that enhancing MSMEs' financial performance is influenced by digital financial literacy. The following is the hypothesis that the above justification supports:

H1 : Digital financial literacy has a significant positive effect on the financial performance of MSMEs

Locus of Control on Financial Performance

In line with the TPB Theory, someone with a locus of control can better understand business challenges and do anything to maintain business continuity. [Perry & Morris \(2005\)](#) stated that locus of control influences the company's financial performance. Entrepreneurs with a high locus of control will believe they can handle financial problems in their daily lives and tend to manage their business finances efficiently. Supported by a study conducted by [Budiasni et al., \(2023\)](#) and [Darmawan et al., \(2021\)](#) revealed that locus of control significantly and positively impacts the financial performance of MSMEs. The research hypothesis supported by the justification above is as follows:

H2 : Locus of control has a significant positive effect on the financial performance of MSMEs

Financial Behavior on Financial Performance

According to the TPB theory, individuals with good financial behavior tend to have optimal performance, allowing companies to compete in the global market. According to [Esiebugie A. & Emmanuel A. \(2018\)](#), financial behavior is a contributing factor that is relatively high in the financial performance of MSMEs. The financial performance of companies is positively correlated with their financial behavior ([Awwaliyah et al., 2023](#)). The aforementioned assertion is backed by the findings of [Setiani et al., \(2024\)](#) and [Yulianto & Rita \(2023\)](#), which states that the financial performance of MSMEs positively and significantly influences financial behavior. The research hypothesis supported by the justification diverged above is as follows:

H3 : Financial behavior has a significant positive effect on the financial performance of MSMEs

Digital Financial Literacy on Financial Behavior

According to the TPB theory, one resource that companies can use to improve financial behavior is digital financial literacy. Making strategic business decisions, developing abilities in digital financial access, and planning a business all require digital financial literacy ([Idawati & Pratama, 2020](#)). Therefore, the better the financial behavior, the more one understands digital money. According to a study by [Alkhalwaldeh et al. \(2023\)](#), [Andriyani & Sulistyowati \(2021\)](#) and [Risman, \(2024\)](#), financial literacy significantly improves financial behavior, supporting the hypothesis above. The following is the research hypothesis that the above-mentioned justifications support:

H4 : Digital financial literacy has a significant positive effect on the financial behavior

Locus of Control on Financial Behavior

According to the TPB theory, the primary factor affecting people's financial conduct is locus of control. How someone handles their money is significantly impacted by their locus of control. [Sudarmawanti et al. \(2024\)](#) assert that people with self-control can efficiently manage their funds. This is backed by research conducted by [Hutapea et al. \(2023\)](#) and [Brahmastra & Wikartika \(2023\)](#), which shows that locus of control significantly impacts financial behavior. The following is the study hypothesis that is backed up by the previously provided arguments:

H5 : Locus of control has a significant positive effect on financial behavior

Digital Financial Literacy Through Financial Behavior on Financial Performance

Based on the TPB theory, a company's financial performance is thought to be driven by behavioral intents and resources that are presumed to be financial literacy. Financial literacy has been shown to influence an individual's financial behavior in the digital age. It can aid in understanding the financial world, aid in financial decision-making, facilitate business, and promote economic growth ([Mukarromah et al., 2020](#)). However, a crucial factor that can influence financial performance is financial conduct ([Susan, 2020](#)). Therefore, digital financial literacy through financial behavior can increase financial performance to achieve corporate success ([Awwaliyah et al., 2023](#)). The following is the research hypothesis backed by the previously provided justifications:

H6 : Digital financial literacy has a significant positive effect on the financial performance of MSMEs through financial behavior.

Locus of Control through Financial Behavior on Financial Performance

Aligned with the TPB theory, locus of control can improve the financial behavior of MSME players financial behavior, which leads to business success, which can be seen through their financial performance. Control from within can shape financial behavior, including financial budget planning, financial drafting techniques, prudence in taking risks, decision-making, and saving. In improving business performance, MSME actors must change their business functions, including financial management behavior ([Lose et al., 2016](#)). Supported by research by [Ismawati & Rochman \(2023\)](#) and [Mutlu & Özer 2022](#), MSME actors must have a locus of control to improve their financial behavior. The findings of the empirical study of [Krismadayanti et al. 2023](#) and [Setiani et al. \(2024\)](#) state that financial behavior impacts the financial performance of MSMEs. This emphasizes that there is an attitude leading from the locus of control on financial behavior, and financial behavior affects financial performance. However, research exploring this relationship is still limited. This is a research gap and generates hypotheses that are supported by the justifications given above as follows:

H7 : Locus of control has a significant positive effect on the financial performance of MSMEs through financial behavior

Based on the proposed hypothesis, the research framework is as follows:

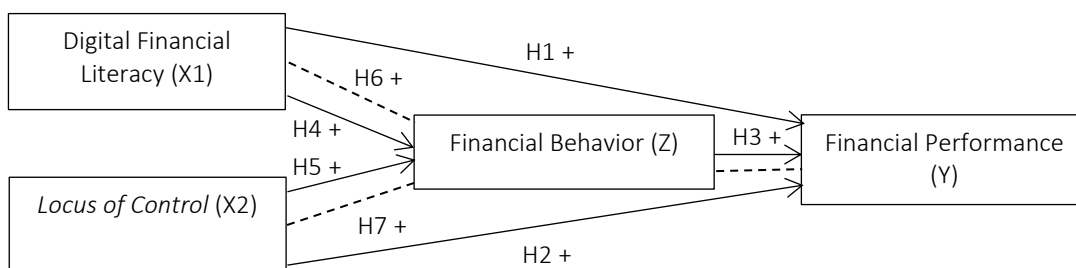


Figure 1. Conceptual framework

RESEARCH METHODS

Sample and Sampling Technique

[The Communication and Informatics Office of Banyumas Regency](#) estimates 89,553 active MSME units in the Regency as of 2024. The Slovin approach (1960), which yields 99 samples, was used to determine the number of samples for this investigation. Business actors in Banyumas Regency are directly given Google Form surveys to complete, yielding 177 respondents for this quantitative study that uses primary data and convenience sample approaches ([Sugiyono, 2021](#)).

Statistical Testing

The statistical test used is partial least square (PLS) regression analysis using SmartPLS. The analysis used includes validity and reliability tests through the stages of the measurement model (outer model) and the structural model (inner model), along with bootstrapping analysis and specific indirect effect evaluation.

Variable measurement

This study uses two independent variables: Digital financial literacy (X1) and locus of control (X2). One dependent variable is financial performance (Y), and one mediating variable is financial behavior (Z). These variables are measured by indicators, which are translated into instrument items in the form of questionnaire statements. The instrument items used to create the research questionnaire are shown below:

Table 1. Variable measurement

Variables		Instrument Item	
Digital Literacy (X1) (Awwaliyah et al., 2023)	Financial	DFL 1	I have a bank account/digital wallet (Brimo, Livin, Dana, Ovo, Gopay, Shopeepay)
		DFL 2	I know the benefits of savings and potential returns from savings
		DFL 3	I know and understand internet banking
		DFL 4	I know and understand how to utilize QRIS and payment facilities
		DFL 5	I know and understand how to use financial technology and P2P Lending (financial service providers)
		DFL 6	I know about interest rates
		DFL 7	I understand the concept of the time value of money, which implies that the value of money today will differ from its value in the future.
		DFL 8	I understand about inflation and its effect on business
		DFL 9	I understand how to pay installments
		DFL 10	I understand debt management
		DFL 11	I know the amount of business debt
		DFL 12	I understand financial statements, including cash flow, income statements, balance sheets, and capital changes.
		DFL 13	I understand working capital
Locus of Control (X2) (Mutlu & Özer, 2022)		LOC 1	In managing my business, I can do whatever I want.
		LOC 2	I have the power to change important things in my life.
		LOC 3	I can overcome life and business problems.

	LOC 4	I am in control of my business so that no one forces me to manage my business.
	LOC 5	I can control my expenses
Financial Performance (Y) (Awwaliyah et al., 2023)	FP 1	My business has increased sales every month
	FP 2	My business has increased working capital
	FP 3	My business has enough workers to carry out all business activities
	FP 4	My business is experiencing an increase in profits
Financial Behavior (Z) (Awwaliyah et al., 2023)	FB 1	I develop short-term, medium-term, and long-term financial goals for my business
	FB 2	I save regularly from my business profits
	FB 3	I have insurance to avoid business risks
	FB 4	I am careful in choosing debt and credit
	FB 5	I record all daily income and expenses

RESULT AND DISCUSSION

Overview of MSME Respondents

This study was carried out on MSME actors in the Banyumas Regency area of Central Java Province. The questionnaires were collected from 177 respondents, and data was categorized based on gender, monthly sales turnover, and number of employees.

Table 2. Respondent Profile

Category	Frequency	%
Gender		
Male	108	61,02%
Female	69	38,98%
Monthly Turnover		
< IDR 166.000.000	145	81,92%
IDR 166.000.000 – IDR 1.250.000.000	30	16,95%
IDR 1.250.000.000 – IDR 4.166.000.000	2	1,13%
Numbrt of Employees		
< 5	149	84,19%
5 – 19	21	11,86%
20 – 99	7	3,95%

Measurement Model Test (Outer Model)

Validity and Reliability

The study instrument's validity is increased by convergent validity analysis, which involves an outer loading test with a criterion that an outer loading value larger than 0.7 can be considered valid [\(Ghozali, 2021\)](#). Every variable should have an Average Variance Extracted (AVE) analysis with a value larger than 0.5 [\(Ghozali, 2021\)](#). Cronbach's Alpha and Composite Reliability are the reliability analyses employed in this study; a value of greater than 0.7 indicates reliability [\(Ghozali, 2021\)](#). Test results are shown in Table 3. It states it is legitimate since the AVE value is > 0.5 and the outer model value is > 0.7. Since the composite reliability values and Cronbach's alpha readings are more than 0.7, they are deemed reliable.

Table 3. Results of validity and reliability test measurements

Item	Outer Loadings	Cronbach's Alpha	Composite reliability	AVE
DFL6	0.816	0.931	0.945	0.712
DFL7	0.850			
DFL8	0.849			
DFL9	0.869			
DFL10	0.901			
DFL11	0.893			
DFL13	0.714			
FB1	0.944	0.874	0.941	0.888
FB2	0.941			
FP2	0.904	0.887	0.930	0.816
FP3	0.887			
FP4	0.917			
LOC2	0.844	0.887	0.922	0.748
LOC3	0.899			
LOC4	0.857			
LOC5	0.859			

Discriminant Validity

This test ensures that each latent model is distinct from other variables. The Fornell Lacker Criterion evaluates discriminant validity, which states that each variable's AVE root value must be greater than the AVE root value of its correlation with other variables for the test's findings in Table 4 to be considered valid (Ghozali, 2021).

Table 4. Discriminant validity

Item	DFL (X1)	FB (Z)	FP (Y)	LOC (X2)
DFL (X1)	0.844			
FB (Z)	0.803	0.942		
FP (Y)	0.819	0.868	0.903	
LOC (X2)	0.822	0.792	0.807	0.865

Structural Model Test

R-Square

Adjusted R-Square provides an overview to evaluate the capacity of exogenous constructs to explain endogenous constructs.

Table 6. R-Square test results

Item	R Square	R Square Adjusted
FB (Z)	0.699	0.695
FP (Y)	0.807	0.803

Table 6 explains that the financial behavior variable's modified r-square value is 69.5%, meaning that the locus of control and digital financial literacy variables have a 69.5% impact on financial behavior. The remaining 30.5% are influenced by other factors, not within the study's purview. The financial performance variable's adjusted r-squared value is 80.3%, meaning that 80.3% of financial performance is influenced by digital financial literacy, locus of control, and financial behavior, with the remaining 19.7% being influenced by variables outside the study's purview.

Hypothesis Testing

Research can be declared significant if the P-value < 0.05. Conversely, the relationship is declared insignificant if the P-value > 0.5. All relationships are said to have a positive direction. If the path coefficient value shows a positive value while the path coefficient has a negative direction, the direction shows negative.

Table 7. Direct effect results: Path coefficient

Item	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values	Description
DFL (X1) -> FP (Y)	0.237	0.241	0.090	2.629	0.004	Supported
LOC (X2) -> FP (Y)	0.204	0.207	0.084	2.417	0.008	Supported
FB (Z) -> FP (Y)	0.517	0.510	0.088	5.846	0.000	Supported
DFL (X1) -> FB (Z)	0.470	0.468	0.090	5.242	0.000	Supported
LOC (X2) -> FB (Z)	0.405	0.410	0.088	4.615	0.000	Supported

Table 8. Indirect effect results : Specific indirect effect

Item	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values	Description
DFL (X1) -> FB (Z) -> FP (Y)	0.243	0.238	0.062	3.933	0.000	Supported
LOC (X2) -> FB (Z) -> FP (Y)	0.209	0.208	0.058	3.630	0.000	Supported

First Hypothesis Testing Results

According to the study's first hypothesis, digital financial literacy positively and significantly impacts MSMEs' financial performance. The analysis results show that digital financial literacy has a positive and significant impact on the financial performance of MSMEs. The path coefficient value is 0.237, the t-statistic is 2.629 > t-table (1.960). The p-value is 0.004 < 0.05. The following findings confirm the first hypothesis. The analysis's conclusions demonstrate that digital financial literacy can enhance MSMEs' financial performance, encompassing knowledge of digital financial accounts, internet banking, interest rates, inflation, QRIS use, saving, debt and installment management, financial statements, and working capital. [Dura \(2022\)](#) and [Miswanto et al. \(2024\)](#) claim that there is a direct correlation between financial literacy and financial management skills, and that the more financially literate a person is, the better their management. A person's financial performance can be improved by using this financial literacy skill when saving, borrowing, making decisions, and managing money. This finding impacts financial performance in accordance with the theory of planned behavior, which describes how digital financial literacy can increase company actors' confidence in their capacity to manage their finances. It has been established by earlier studies by [Awwaliyah et al. \(2023\)](#), [Daud et al. \(2022\)](#), [Ranatunga et al. \(2020\)](#), and [Wulandari et al. \(2024\)](#) that financial literacy significantly and favorably affects MSMEs' financial performance.

Second Hypothesis Testing Results

According to the study's second hypothesis, locus of control significantly and favorably affects MSMEs' financial performance. The analysis results indicate that locus of control has a positive and substantial impact on the financial performance of MSMEs, with a path coefficient value is 0.204, a t-statistic value is 2.417 > t-table (1.960), and a p-value of 0.008 < 0.05. The second theory is thus accepted. Based on the survey results, MSMEs' financial performance can be enhanced by locus of control, which includes self-control to do anything in their minds that can solve their issues, modify essential aspects of their lives, and control their expenditures. [Mutia \(2024\)](#) asserts that a person with a locus of control will be more conscientious regarding strategic planning and risk management and stay dedicated to reaching their business objectives, including MSMEs' financial performance.

This is consistent with planned behavior, which explains how a locus of control that promotes better financial success can control difficulties in running a corporation. According to earlier studies put out by [Huda et al. \(2022\)](#), [Setyawati et al. \(2024\)](#), and [Suraya et al. \(2020\)](#), locus of control has a favorable and noteworthy impact on MSMEs' financial performance.

Third Hypothesis Testing Results

The study's third hypothesis is that financial behavior significantly and favorably affects MSMEs' financial performance. The findings indicated that financial behavior could have a positive and significant impact on MSMEs' financial success, with a p-value of $0.000 < 0.05$, a path coefficient value of 0.517, and a t-statistic value of $5.846 > t\text{-table (1.960)}$. The third hypothesis is thus approved. The investigation results demonstrate that financial behavior, such as goal-setting, consistent saving, careful debt management, risk avoidance, and record-keeping, can enhance MSMEs' financial success. [Pandey and Gupta \(2018\)](#) research shows that financial management practices will improve financial performance and impact entrepreneurial success. According to [Eniola and Entebang \(2017\)](#), financial management will equip business actors with financial abilities that will influence financial decision-making and achieve optimal performance. This is consistent with the notion of planned behavior, which describes how improving MSME financial performance through sound financial behavior can lead to business sustainability in a business rivalry. According to an earlier study, the financial performance of MSMEs is positively and significantly impacted by financial behavior ([Awwaliyah et al., 2023](#); [Setiani et al., 2024](#); [Yulianto & Rita, 2023](#)).

Fourth Hypothesis Testing Results

According to the study's fourth hypothesis, digital financial literacy positively and significantly impacts financial behavior. A p-value of $0.000 < 0.05$, the analysis's path coefficient value of 0.470, and a t-statistic value of $5.242 > t\text{-table (1.960)}$ demonstrate that digital financial literacy has a positive and substantial impact on financial behavior. The fourth theory is thus accepted. The results of this study's survey show that having knowledge and abilities related to digital finance might alter one's perspective in practice. Because of this, businesses can make the best financial decisions, select the best financial solutions, efficiently manage their money, and reach their financial objectives. A person with financial education can create a strong financial foundation and make wise financial judgments, claims [Kumar Kumar et al. \(2023\)](#). Reaching financial objectives, controlling spending and saving patterns for the future, and promoting disciplined financial behavior are all made possible by digital financial literacy ([Aryan et al., 2024](#)). This relates to the theory of planned behavior, which explains how nonmotivational elements like knowledge and skills can affect financial behavior. Financial behavior can be enhanced by digital financial literacy. The same findings were observed in earlier research, specifically that digital financial literacy has a favorable and significant impact on MSMEs' financial behavior ([Andriyani & Sulistyowati, 2021](#); [Azeez & Akhtar, 2021](#); [Lyons & Kass-Hanna, 2021](#)).

Fifth Hypothesis Testing Results

According to the study's fifth hypothesis, locus of control significantly and favorably influences financial behavior. The analysis's conclusions indicate that the locus of control positively and significantly influences financial behavior, as evidenced by the path coefficient value of 0.405, the t-statistic value of $4.615 > t\text{-table (1.960)}$ and the p-value is $0.000 < 0.05$. The fifth hypothesis is thus accepted. According to the study survey results, MSME actors view locus of control as a motivator for initiative and self-reliance when pursuing business endeavors. Another factor thought to be responsible for MSME players' ability to adjust to changes in the business environment is locus of control. According to [Huda et al. \(2023\)](#), people with a high locus of control are likelier to take chances, launch enterprises, and adapt their business plans to changing market conditions. [Asaari \(2021\)](#) asserts that MSME participants who own a locus of control will be more assured when making choices and taking actions that directly contribute to attaining outcomes, particularly

financial ones. The theory of planned behavior reveals that the factor in improving financial behavior is the deepest motivation in humans, namely locus of control. They can also alter the course of their lives and control their circumstances as they see fit, leading them to be more proactive in managing their finances ([Setianingsih et al., 2022](#)). Previous studies have established similar conclusions, specifically that locus of control has a positive and significant influence on the financial behavior of MSMEs ([Ardhana & Linda, 2023](#); [Dahlima et al., 2024](#); [Pramesty et al., 2024](#)).

Sixth Hypothesis Testing Results

The study's sixth hypothesis is that the association between digital financial literacy and financial performance may be mediated by financial behavior. According to the study's findings using the test special indirect effect, the t-statistic value is $3.933 > t\text{-table (1.960)}$, the path coefficient value is 0.243, and the p-value is $0.000 < 0.05$. It supports the sixth hypothesis that financial behavior can mediate the association between MSME financial performance and digital financial literacy. According to the financial behavior analysis findings, the association between digital financial literacy and MSME financial success can be mediated by an individual's actions in setting short- to long-term financial goals, saving, taking risks, and maintaining basic financial records. This is also pertinent to planned behavior, which holds that financial behavior is a basis for enhancing the correlation between financial performance and digital financial literacy. According to [Grohmann \(2017\)](#), good financial literacy can boost MSME actors' self-esteem and sense of accountability in managing their issues to enhance financial performance. According to research by [Awwaliyah et al. \(2023\)](#), [Mukarromah et al. \(2020\)](#), and [Sumani et al. \(2022\)](#), financial behavior and financial literacy have a positive impact on MSMEs' financial performance.

Seventh Hypothesis Testing Results

The study's seventh hypothesis is that the relationship between locus of control and financial performance may be mediated by financial behavior. With a path coefficient value of 0.209, a t-statistic value of $3.630 > t\text{-table (1.960)}$, and a p-value of $0.000 < 0.05$, the study's results through special indirect effects demonstrate that financial behavior can mediate the relationship between locus of control and financial performance. As a result, the seventh hypothesis is accepted. According to the analysis, MSME actors exhibit sound financial practices, including setting short- and long-term financial objectives, keeping straightforward financial records, conserving money, and carefully weighing the danger of debt. This may act as a moderator in the relationship between MSME financial performance and locus of control. This relates to planned behavior, which holds that the locus of control-generated financial behavior is the primary driver of improved financial performance. According to studies [Ismawati & Rochman \(2023\)](#), [Krismadayanti et al. \(2023\)](#), [Mutlu & Özer \(2022\)](#), [Setiani et al. \(2024\)](#), improvements in MSMEs' financial performance will be influenced by locus of control and prudent financial behavior.

CONCLUSION

According to this study, locus of control and digital financial literacy can significantly influence financial behavior and performance. Financial behavior significantly improves financial performance, according to analyst results. According to mediation results, financial behavior can mediate locus of control and digital financial literacy on financial performance. The following limitations apply to this study: First off, the study's scope was restricted to the Banyumas Regency, therefore it cannot be applied elsewhere. Second, as shown by the coefficient values of models 1 and 2, which are 0.695 and 0.803, respectively, the study's findings suggest that other factors influence the variables of locus of control, financial behavior, digital financial literacy, and financial performance.

This study provides several theoretical and practical suggestions based on the above limitations. First, further research can expand the target objects of MSMEs to include more than one district so that they can be widely generalized. Second, further research can add other

variables, such as competitive advantage, which has been proven to improve financial performance (Innayah et al., 2024; Limakrisna & Muharam, 2023; Sasmito et al., 2023). Future research can add human capital variables, proven to affect and improve financial performance positively (Pratama et al., 2024; Rokhman et al., 2023; Syarifah et al., 2020).

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