

Impact of self-efficacy, digital and financial literacy, and family support on Indonesian entrepreneurs' performance

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ABSTRACT

Although micro, small, and medium enterprises (MSMEs) are easy to establish, many fail due to a lack of capabilities and an inability to keep pace with recent digital and financial developments. Even worse, some lack support from family members. As a result, they struggle to compete with larger institutions for sustainability. Despite these challenges, a notable subset succeeds, prompting researchers to investigate the factors contributing to their performance. Grounded in self-efficacy theory and existing literature, this study examines the impact of self-efficacy, digital and financial literacy, and family support on entrepreneurial performance. The researchers collected data from 237 entrepreneurs in West Java, Indonesia, and analyzed it using structural equation modeling–partial least squares (SEM-PLS). The findings indicate that all predicted factors, self-efficacy, digital literacy, financial literacy, and family support, positively influence entrepreneurial performance. These insights are valuable for policymakers, entrepreneurship agencies, and academics in formulating policies and training programmers that emphasize self-efficacy, digital and financial literacy, and family support. Strengthening these aspects will help entrepreneurs succeed, ultimately driving inclusive and sustainable economic growth.

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1. INTRODUCTION

Micro, small, and medium enterprises (MSMEs) are the backbone of the Indonesian economy, contributing 61% to the country's gross domestic product (GDP) and providing 97% of employment for 119.6 million people [1]. MSMEs play a multifaceted role, benefiting various stakeholders. Beyond acting as a catalyst for local economies, they also contribute to global economic growth. However, many MSMEs, particularly micro-entrepreneurs, face multiple obstacles, struggling to compete with larger institutions due to limited resources and expertise [2]–[4]. Despite these challenges, a notable subset thrives, underscoring the importance of understanding the factors driving their success. Given their crucial role in the economic growth of emerging economies like Indonesia, scholars have increasingly sought to identify elements that enhance entrepreneurial performance.

Inevitably, with the advent of digitalization, technology literacy is essential for entrepreneurs to succeed in their business venture [5]. Besides, they should also be financially literate and get tremendous

support from family members [6]–[8]. The utmost importance is that they must possess high self-efficacy or believe in their capabilities that they could perform [9]. Although literature has proven that many factors are related to entrepreneurs' performance, limited studies have examined all the above-mentioned variables simultaneously, specifically in the Indonesian context. As such, to provide a novelty contribution, this study aims to examine the impact of self-efficacy, digital literacy, financial literacy, and family support on the business performance of Indonesian micro-entrepreneurs.

The following sections review the literature before developing the hypotheses. The study then outlines the adopted methodology and presents the results. The analysis continues with a discussion before concluding. Additionally, the study highlights its implications, limitations, and recommendations for future research.

2. METHOD

2.1. Social cognitive theory and entrepreneurs' performance

Social cognitive theory (SCT) proposed by [10] predicts that positive performance results from the interaction of three elements: the individual, behavior and environment. Digital and financial literacy represent behavioral elements, while social influence constitutes the social environment, encompassing individuals who can support and influence an entrepreneur in running a business. Examining entrepreneurial performance through the lens of SCT provides insights into how these factors shape entrepreneurs' success. Figure 1 depicts the conceptual framework of this study.

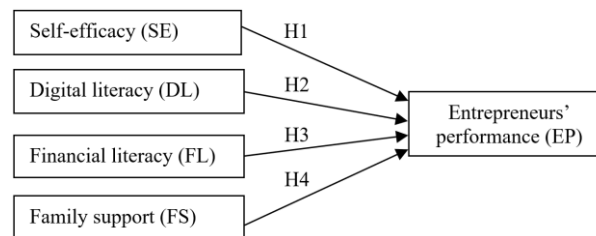


Figure 1. Conceptual framework

2.1.1. Self-efficacy and entrepreneurs' performance

Self-efficacy is the main concept of SCT, representing the extent of believing in the ability to accomplish the desired outcomes, which is entrepreneurs' performance [11]. Thus, entrepreneurs who are highly self-efficacious are more likely to perform better than those who are not. Literature also highlighted that entrepreneurs who are high in self-efficacy are more likely to perform [12]–[15]. As such, the study formulates the following hypothesis.

H1: self-efficacy positively impacts entrepreneurs' performance.

2.1.2. Digital literacy and entrepreneurs' performance

Digital literacy refers to an individual's ability to understand and engage with digital technology, particularly online tools [20]. Entrepreneurs develop digital literacy throughout their ventures, aligning with SCT as one of the individual elements that contribute to performance achievement [14]. Research also supports the positive impact of digital literacy on entrepreneurial performance [16], [17]. Based on SCT and existing literature, this study proposes hypothesis 2.

H2: digital literacy positively impacts entrepreneurs' performance.

2.1.3. Financial literacy and entrepreneurs' performance

Financial literacy refers to an individual's understanding of financial matters, including finance, budgeting, costing, investment, and taxation. Financially literate entrepreneurs are better equipped to plan and manage their business performance. Financial literacy is also an individual element, which SCT anticipates influencing performance [14]. Similarly, existing literature supports the positive impact of financial literacy on entrepreneurial performance [10], [18]–[20]. Based on SCT and previous research, this study proposes the following hypothesis.

H3: financial literacy positively impacts entrepreneurs' performance.

2.1.4. Family supports and entrepreneurs' performance

Family support is a form of social capital in which entrepreneurs receive moral, resources, financial, or any other kind of assistance in operating their business [21], [22]. Furthermore, during challenging

periods, entrepreneurs need support from family for aid and emotional encouragement [23]. The family can offer financial support, ensuring the business's continuity during adversity and motivating an entrepreneur to engage in strategic planning [24]. Thus, family support could lead to a significant improvement in entrepreneurs' performance. The SCT postulates that the environment represented by social settings would influence a person's performance. Several studies also found positive impacts of family support on entrepreneurs' performance [8], [24], [25]. Based on the discussion, the study proposes hypothesis 4.

H4: Family support positively impacts entrepreneurs' performance.

3. RESEARCH METHOD

3.1. Research design

This study employs a quantitative, positivist approach, using a survey to collect data. It adopts a cross-sectional design, where data were collected at a single point in time [26]. The unit of analysis is the individual entrepreneur. Additionally, the study uses a personally administered questionnaire, in which respondents independently complete their answers.

3.2. Sample and data collection

A set of questionnaires was emailed to 300 entrepreneurs who attended an entrepreneurship seminar organized by Universitas Pembangunan Nasional "Veteran" Jakarta (UPNVJ) on 31st May 2024. The questionnaires were administered online via Google Forms. A total of 250 participants responded. However, after data cleaning, only 237 responses were analyzed due to missing or incomplete data. Based on G*power software for sample size justification [27], the recommended sample size for a population of 300 was 128 respondents. This study, however, utilized data from 237 respondents, exceeding the required threshold.

3.3. Questionnaire development and variable measurements

The researchers adapted the measurement items from the literature. Entrepreneurial performance was measured using 16 items from [28]. Self-efficacy, based on [29], comprised eight items, previously validated by [30]. Digital literacy was assessed with six items adopted from [20], while financial literacy items were drawn from [31]. Finally, family support was measured using eight items adapted from [25]. All measurements were evaluated on a 7-point Likert scale, ranging from 1 (strongly disagree) to 7 (strongly agree).

3.4. Data analysis

The study examined the respondents' demographic profiles using frequency and descriptive analyses. Next, it measured variance inflation factors (VIF) to identify common method bias and the existence of multicollinearity between constructs [31]. After satisfying the minimum threshold, the study proceeded with the outer model, of the smart partial least squares (SmartPLS) version 4. Smart structural equation modeling–partial least squares (SEM-PLS) analyses data using two models: outer and inner models. The outer model measures the data's goodness of fit, validity, and reliability. Meanwhile, the inner model measures relationships between constructs to examine the research objectives.

4. RESULTS AND DISCUSSION

4.1. Respondents' demographic profiles

The findings indicated that 51% of the respondents were male, while 49% were female. Most respondents were in the 20–30-year-old age bracket (33.8%), followed by the 31–40-year-old group (26.6%) and the 41–50-year-old bracket (19.8%), while other age groups accounted for the remaining 19.8%. In terms of ethnicity, the respondents were primarily Sundanese (35%), Javanese (32.1%), and Betawi (15.6%), while the rest belonged to other ethnic groups, such as Batak and Minangkabau. Regarding education levels, the majority of respondents completed senior high school (44.7%), followed by those with a bachelor's degree (38%). Others had completed primary school (6.3%), junior high school (5.1%), or a diploma (5%), while only 0.8% held a master's degree.

Most respondents were sole proprietors (93.7%), with only 6.3% engaged in other business structures such as partnerships, joint ventures, or limited companies. In terms of monthly revenue, 12.2% of respondents earned IDR 1–5 million, 11.4% earned above IDR 100 million, 10.1% earned IDR 31–40 million, 9.7% earned IDR 51–60 million, 8% earned IDR 11–20 million, and 8% earned IDR 61–70 million. The remaining 40.6% fell into other revenue brackets. Regarding employment, the majority of respondents had between one and four employees (55.7%), followed by those with no employees (38.4%), while 5.9% had more than four employees. Additionally, most SMEs were in the 1–3 years age bracket (39.2%), followed by those operating for 4–7 years (26.2%) and those in business for less than a year (20.3%). Only 14.3% of SMEs had been operating for more than seven years.

4.2. Inner model (reliability and validity analysis)

The study assessed the inner model by examining internal reliability, as well as convergent and discriminant validity. Convergent validity was confirmed if item loadings, composite reliability (CR), and average variance extracted (AVE) met the required threshold values. The findings indicated that all items had a minimum loading of 0.531, exceeding the threshold of 0.5 [32], [33]. Cronbach's alpha and CR values for all constructs were above 0.802 and 0.816, respectively, surpassing the recommended thresholds [32]. Additionally, the VIF values ranged from 1.403 to 1.70, indicating no multicollinearity issues [32].

4.3. Discriminant validity

The researchers employed the heterotrait–monotrait ratio (HTMT) criterion, as suggested by [34] to measure the fulfilment of discriminant validity. For the HTMT criterion, values lower than the acceptable value of HTMT are 0.85 and 0.90 [32], [33]. The findings indicated that all values were below 0.85, proving that all constructs have met the discriminant validity criterion.

4.4. Structural model

The study evaluated the structural model, employing a 5,000 sample, bootstrapping technique to test the hypotheses. The findings showed that the coefficient of determination (R^2) and predictive relevance (Q^2) were 0.472 and 0.267, respectively. This indicates that 47.20 % of entrepreneurs' performance is explained by financial and digital literacy, self-efficacy, and family support. Besides, the model can be predicted by 26.7 %. The findings indicated that all the hypotheses are supported.

Hypothesis 1 stated that has a positive impact on entrepreneurs' performance. The results findings supported ($\beta = 0.394$, $p = 0.00$, $***p < 0.00$) and in tandem with the studies of [15], [17], [33]. Thus, self-efficacious entrepreneurs are confident in forming constructive decisions that lead to the business's positive performance. Hypothesis 2 stated that digital literacy has positively impacted on entrepreneurs' performance. The findings also supported ($\beta = -0.118$, $p = 0.031$, $**p < 0.05$), which concurred with prior studies [7], [13], [20], [35]. Indeed, entrepreneurs who leverage digital tools would elevate their business performance. Hypothesis 3 stated that financial literacy has a positive impact on entrepreneurs' performance. Likewise, the findings supported ($\beta = 0.126$, $p = 0.009$, $**p < 0.05$), which aligned with literature [10], [11], [31]. The more literate entrepreneurs in finance, the more likely they are to perform in their business venture. Hypothesis 4 proposed that family support positively impacts entrepreneurs' performance. Similarly, the findings supported ($\beta = 0.217$, $p = 0.001$, $**p < 0.05$), concurred with prior studies [8], [24], [26], [28]. Indeed, family support is a critical factor that contributes to entrepreneurial performance. Figure 2 illustrates the structural model, providing a visual representation of the hypothesized relationships among the constructs. Meanwhile, Table 1 presents the path coefficients for the hypothesis analysis, including the estimated relationships and their statistical significance.

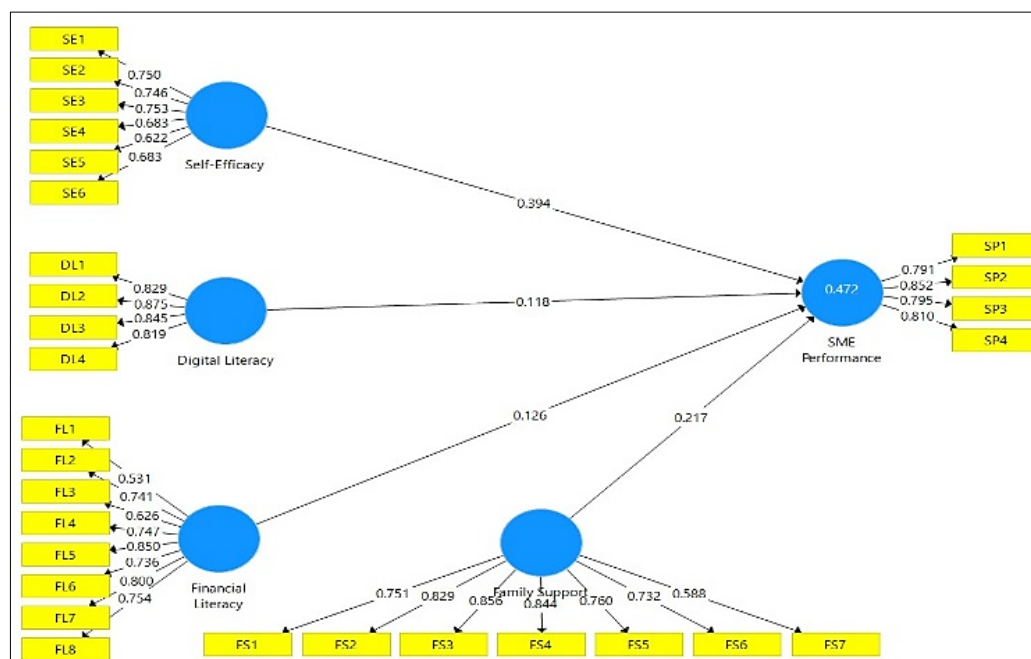


Figure 2. Structural model

Table 1. Path coefficients for hypothesis analysis

Hypothesis	Estimate	S.E.	T	p-value	f ²	R ²	Q ²	Relationship
H1 SE → EP	0.394	0.080	4.929	0.000***	0.173	0.472	0.162	Significant
H2 DL → EP	0.118	0.055	2.162	0.031**	0.017			Significant
H3 FL → SE	0.126	0.048	2.620	0.009**	0.021			Significant
H4 FS → SE	0.217	0.065	3.370	0.001***	0.057			Significant

Note: *p < 0.10, ** p < 0.05, *** p < 0.001

5. CONCLUSION

This study examines the impact of self-efficacy, digital literacy, financial literacy, and family support on entrepreneurial performance. The findings indicate that all these relationships are significant, which affirms the validity of SCT. This suggests that self-efficacious entrepreneurs who are digital and financially literate and receive family support are more likely to succeed in their business ventures. These findings provide valuable insights for policymakers, authorities, academics, and other stakeholders in developing training and support programmes that foster resilience among entrepreneurs. Practically, the findings encourage entrepreneurs to continuously enhance their competencies by emphasizing the importance of fostering a mindset of self-efficacy to achieve success. Furthermore, it highlights the crucial role of family members in supporting entrepreneurs through challenges. Programs that promote digital literacy through education, training, and access to resources can empower entrepreneurs to succeed in an increasingly digital world, fostering innovation, growth, and economic development. Nevertheless, this study is limited to four independent variables, a quantitative approach, and its narrow geographical focus on West Java, Indonesia. Therefore, future research should examine additional factors, such as innovation, growth mindset and passion for work. Future studies are also encouraged to adopt qualitative or mixed-method approaches to gain deeper insights into entrepreneurs' experiences. Furthermore, to enhance its external validity and broaden the study's scope, future research should conduct comparisons between cross-cultural. Exploring diverse cultural contexts would reveal potential differences that shape entrepreneurial performance in various settings. By embracing a wider lens, this approach would offer a richer, more layered understanding of the factors that influence entrepreneurial success and weave a more comprehensive picture of business dynamics across cultures.

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AUTHOR CONTRIBUTIONS STATEMENT

This journal uses the Contributor Roles Taxonomy (CRediT) to recognize individual author contributions, reduce authorship disputes, and facilitate collaboration.

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C : Conceptualization

M : Methodology

So : Software

Va : Validation

Fo : Formal analysis

I : Investigation

R : Resources

D : Data Curation

O : Writing - Original Draft

E : Writing - Review & Editing

Vi : Visualization

Su : Supervision

P : Project administration

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CONFLICT OF INTEREST STATEMENT

The authors declare that they have no known competing financial interests, personal relationships, or institutional affiliations that could have appeared to influence the work reported in this paper. This research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest. Furthermore, no funding body or external organization had any role in the design of the study, data collection, analysis, interpretation of data, or the writing of the manuscript.

INFORMED CONSENT

The authors have obtained informed consent from all individuals included in this study.

ETHICAL APPROVAL

The Research Ethics Committee (REC), University Teknologi MARA, has approved this project (Reference no. REC/01/2023/PG/MR/16) before the authors proceed with collecting data.

DATA AVAILABILITY

The data that support the findings of this study are available from the corresponding author, [WNWA], upon reasonable request.

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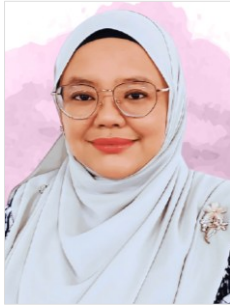
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