

Exploring Financial Literacy Among MSME Owners and Managers: a Narrative Review for Community Pharmacy Measurement

Rahzopan Seraguma¹, Anna Wahyuni Widayanti^{2*}

¹ Master Program of Pharmacy Management, Faculty of Pharmacy, Universitas Gadjah Mada

² Faculty of Pharmacy, Universitas Gadjah Mada

Corresponding author: Rahzopan Seraguma | Email: rahzopanseraguma@mail.ugm.ac.id

Submitted: 06-08-2024

Revised: 11-09-2024

Accepted: 11-09-2024

ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) were crucial in shaping a nation's economic landscape, particularly in developing countries. They acted as key drivers of economic development by boosting domestic production and creating job opportunities. However, MSMEs in these regions often faced significant challenges, particularly in accessing adequate financing. This narrative literature review examined the financial literacy of MSME owners and managers and its impact on improving their performance. The review utilized the Science Direct database, focusing on articles published in the last five years within the fields of business, management, accounting, economics, and finance. Only open-access research articles were included. Out of 2,259 articles screened, 2,249 were excluded due to mismatches in topic, methodology, or setting, resulting in 10 papers that aligned with the research focus. The findings highlighted that financial literacy provided entrepreneurs with a deeper understanding of corporate goals and strategies and familiarized MSME owners and managers with various financing options and support services available to them.

Keywords: financial literacy; micro, small, and medium enterprise; community pharmacy

INTRODUCTION

Community Pharmacy is one of millions MSMEs in Indonesia, has generate job creation and economic growth. Based on the Online Single Submission (OSS) regulation in Indonesia, pharmacists own and manage these community pharmacies. Similar to MSMEs in other countries, one of the primary challenges they face is limited financing capacity (Yoshino, 2016). To ensure business sustainability, MSMEs must develop various capabilities, including financial literacy, which is a crucial factor for economic and financial stability (Hamdana et al., 2022). Financial literacy involves the ability of MSME owners and managers to make informed financial decisions (Ripain et al., 2017). Financial literacy is essential for the sustainability of MSMEs, as it equips them with the knowledge needed for sound financial decision-making (Ye & Kulathunga, 2019). Financial literacy is vital for the sustainability of MSMEs in both developed and developing countries (Wise, 2013). MSMEs with high financial literacy have better insights into strategic financial issues, leading to improved performance (Hamdana et al., 2022). Conversely, MSMEs with low financial literacy often encounter financial management errors (Lusardi & Mitchell, 2014). Therefore, MSME owners and managers must possess financial literacy, given their central role in the business (Hamdana et al., 2022). In Indonesia, the government is concerned about the low levels of financial literacy. The national survey in 2016 revealed that only 29.66% of the population was well literate financially (Susan, 2020). The objectives of this study are to gather significant insight into the financial literacy of owners and managers to form a foundation for the measurement of community pharmacy.

METHODS

A narrative literature review has been conducted to explore the financial literacy of owners and managers and its role in enhancing the performance of MSMEs. The literature review was carried out using one database (ScienceDirect) and was searched for literature published in 2019 – 2023. The search strategy employs the following keywords to locate relevant studies: (Financial Literacy) AND (Micro, Small, and Medium Enterprises). Focusing on subject areas such as business, management, accounting, economics, and finance. For an article to be included in the review, it had

to feature a combination of keywords from both groups—specifically, those related to financial literacy and MSMEs—within its title, abstract, or keywords. Only research articles that were open-access were included in the review. Exclusion criteria: primarily due to mismatches in topic, methodology, or context. Out of the 2,259 articles initially screened, 2,249 were excluded. As a result, 10 articles were identified that aligned with the research focus. The detailed selection process can be seen in Figure 1.

RESULTS

Among the 2259 articles obtained from the database, ten articles that met the inclusion criteria were further evaluated in this narrative review. All subjects in the included studies were micro, small, and medium enterprises. The characteristics of each article are presented in Table I, while the summary of findings is presented in Table II.

According to the 10 studies included in the narrative review, The studies reviewed in this narrative synthesis provide valuable insights into the relationship between financial literacy and various aspects of business performance, particularly in SMEs and MSMEs across different regions and sectors. The findings consistently demonstrate that financial literacy is a key determinant of business success, influencing factors such as access to finance, financial behavior, and overall business sustainability. This section presents a summary of the key findings from the reviewed studies, highlighting the impact of financial literacy on business outcomes and identifying areas where further research may be needed.

The Impact of Financial Literacy on Business Performance

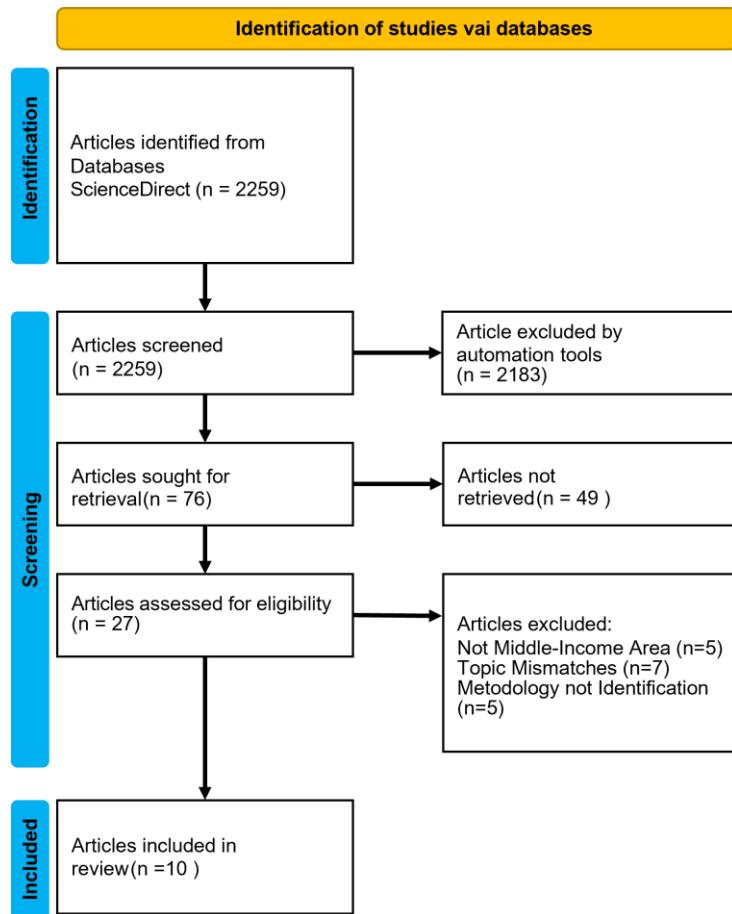
In developing economies, financial literacy is essential for the maintenance and improvement of the performance of SMEs and MSMEs. The research conducted by Ye & Kulathunga, (2019) in Sri Lanka illustrates that financial literacy is a critical factor in the sustainability of small and medium-sized enterprises (SMEs). This is achieved by enhancing access to finance and shaping financial risk attitudes. This relationship is further substantiated by Yanto et al., (2022) who discovered that MSMEs in Central Java, Indonesia, with higher levels of financial literacy, were more capable of maintaining their operations during the COVID-19 pandemic. This emphasizes the significance of financial literacy not only as a solitary competency but also in conjunction with other skills, such as digital literacy, that collectively contribute to business resilience during economic crises.

The critical role of access to finance in the development and sustainability of businesses is a recurring theme in numerous studies. Susan, (2020) discovered that financial literacy directly improves the capacity of MSMEs to access finance in West Java, Indonesia, thereby fostering business expansion and growth. In the same vein, Rahim and Balan, (2021) reported that financial literacy in Kuching, Malaysia, enhances the profitability of small and medium-sized enterprises (SMEs) by facilitating more efficient financial administration and enhancing access to essential financial resources. These results indicate that financial literacy is a fundamental component that not only enhances immediate business results but also enables long-term development by alleviating financial constraints.

Nevertheless, the correlation between financial literacy and financial behaviors is intricate and nuanced. This complexity is exemplified by the research conducted by Bantia and Dey, (2022) in Odisha, India, which demonstrates that financial literacy can be positively influenced by financial knowledge and attitudes, but financial behaviors can occasionally have a negative impact on the overall literacy rating. This paradoxical discovery suggests that financial literacy is a multifaceted concept that necessitates a comprehensive approach. The cognitive aspects of financial knowledge, as well as the behavioral and attitudinal components that collectively influence overall financial literacy, must be addressed in order to provide effective financial education. This comprehensive strategy is indispensable for cultivating sustainable financial practices and guaranteeing that financial literacy is translated into tangible business success.

Contextual Factors

Financial literacy and its influence on business outcomes are significantly influenced by demographic factors, including age, income, education, and gender. For instance, Khuc et al., (2022)

**Figure 1. Article selection flowchart**

proved that financial literacy is positively correlated with age, income, and education in rural Vietnam, indicating that these demographic variables contribute to an individual's ability to effectively manage their finances. Nevertheless, the results of this study indicated that gender did not have a substantial impact on financial literacy. This underscores the necessity of taking specific demographic characteristics into account when developing financial education programs. In contrast, Tumba et al., (2022) identified the distinctive obstacles encountered by female micro-entrepreneurs in Nigeria, where financial literacy, particularly in areas such as accounting, was found to significantly improve business performance. This discovery emphasizes the importance of gender-sensitive financial literacy initiatives that cater to the unique requirements of women in the business sector, particularly in regions where women may encounter systemic obstacles to financial empowerment.

The significance of financial literacy is further underscored in economically impoverished regions. Munyuki and Jonah, (2022) examined the success of youth entrepreneurs in Cape Town, South Africa, and discovered a robust positive correlation between financial literacy and entrepreneurial success. High levels of financial literacy can significantly enhance business outcomes, even in regions with substantial socio-economic obstacles, according to their research. By employing a mixed-method approach, they offered a nuanced comprehension of the strategic application of financial literacy to surmount obstacles imposed by economic hardship. This implies that customized financial education programs, which are specifically designed to address the unique requirements of entrepreneurs in underprivileged environments, could be instrumental in promoting entrepreneurial success and promoting economic development in these regions.

Table I. Characteristics of The Included Studies

Author	Title	Design and Location	Number Participants (n)	Objective of Studies
Ye and Kulathunga, 2019	How Does Financial Literacy Promote Sustainability in SMEs? A Developing Country Perspective	Design: Observational survey with a structured questionnaire survey. Location: Sri Lanka	Sample size: 291 CFOs of SMEs	1. Examine financial literacy impact on SME sustainability in Sri Lanka 2. Explore financial literacy, access to finance, and risk attitude relationships.
Susan, 2020	Financial Literacy and Growth of Micro, Small, and Medium Enterprises in West Java, Indonesia	Design: Descriptive analysis Location: West Java, Indonesia	Sample size: 142 MSME respondents	1. Analyze financial literacy's impact on MSMEs' growth in West Java. 2. Clarify financial literacy, access to finance, and MSMEs' growth.
Rahim and Balan, 2020	Financial Literacy: The Impact on Profitability of SMEs in Kuching	Design: Observational survey Location: Kuching City, Malaysia	Sample size: 235 SMEs	1. Investigate financial knowledge, behavior, and attitude impact on SME profitability. 2. Analyze the relationship between financial behavior and SME profitability
Banthia and Dey, 2021	Impact of Financial Knowledge, Financial Attitude and Financial Behaviour on Financial Literacy: Structural Equitation Modeling Approach	Design: Analytical research study Location: Odisha, India	Sample size: 1067 people	1. Analyze financial literacy with knowledge, attitude, and behavior relationships. 2. Test hypotheses on financial knowledge, attitude, behavior, and their impact.
Munyuki and Jonah, 2021	The nexus between financial literacy and entrepreneurial success among young entrepreneurs from a low-income community in Cape Town: a mixed-method analysis	Design: Mixed-method approach with structured and in-depth interviews for data collection. Location: Cape Town, South Africa	Sample size: 36 young entrepreneurs.	1. Explore financial literacy's impact on young entrepreneurs' success in disadvantaged areas. 2. Assess financial literacy levels and entrepreneurial success correlation among youth entrepreneurs.

Table I. (Continued)

Author	Title	Design and Location	Number Participants (n)	Objective of Studies
Yanto, Heri et al, 2022	The Roles of Entrepreneurial Skills, Financial Literacy, and Digital Literacy in Maintaining MSMEs During The Covid-19 Pandemic	Design: Observational Study Location: Central Java, Indonesia	Sample size: 210 MSMEs	1. Identify determinants of MSME sustainability during the COVID-19 pandemic. 2. Explore roles of entrepreneurial skill, digital, and financial literacy in MSMEs.
Sumantri et al, 2022	Financial Literacy Analysis, Marketing Strategies, and Institutional Models of Coffee Farming Creation	Design: Qualitative Exploratory design Location: Jember, Indonesia	Sample size: N/A	1. Analyze financial literacy, marketing strategies, and institutional models in coffee farming. 2. Develop marketing strategies for coffee farming and institutional models.
Hamdana et al, 2022	The effects of financial and technology literacy on the sustainability of Indonesian SMEs: Mediating role of supply chain practice	Design: Quantitative analysis Location: East Java, Indonesia	Sample size: 485 SME owners	1. Analyze financial, and technology literacy's impact on SME sustainability in Indonesia. 2. Explore SME capabilities through financial, technology literacy, and supply chain practice. 3. Investigate SME sustainability influenced by financial, technology literacy, and networking.
Tumba et al, 2022	Financial literacy and business performance among female micro-entrepreneurs	Design: Observational survey design. Location: Nigeria	Sample size: 303	1. Examine financial literacy's impact on female micro-entrepreneurs business performance. 2. Test hypotheses on financial education, cash forecasting, and bookkeeping effects.

Table I. (Continued)

Author	Title	Design and Location	Number Participants (n)	Objective of Studies
Khuc et al, 2022	Factors influencing financial literacy of the poor in rural areas: empirical research with the case of Vietnam	Design: Mixed method design Location: Vietnam	Sample size: Quantitative: 512 respondents Qualitative: 12 in-depth interviews	1. Investigate factors influencing the financial literacy of the poor in rural areas. 2. Assess the impact of age, gender, income, and education on financial literacy.

Table II. Summary of Findings regarding measurement of financial literacy of MSME

Author	Research Variables		Findings
	Independent Variables	Dependent Variables	
Ye and Kulathunga, 2019	1. Financial literacy 2. Access to finance 3. Financial risk attitude	1. Sustainability 2. Access to finance 3. Financial risk attitude	1. Financial literacy positively impacts SME sustainability through access to finance. 2. Access to finance enhances SME performance and sustainability in Sri Lanka. 3. Financial literacy influences financial risk attitude, impacting SME sustainability.
Susan, 2020	1. Financial literacy 2. Access to finance	1. Access to finance 2. Growth of MSMEs	1. Financial literacy positively impacts access to finance for MSMEs. 2. Access to finance has a positive effect on MSMEs' growth. 3. Financial literacy also positively influences the growth of MSMEs.
Rahim and Balan, 2020	1. Financial knowledge 2. Financial behaviour 3. Financial attitude	1. SME profitability	1. Financial literacy positively impacts access to finance for MSMEs. 2. Access to finance has a positive effect on MSMEs' growth. 3. Financial literacy also positively influences the growth of MSMEs.
Banthisa and Dey, 2021	1. Financial knowledge 2. Financial behaviour 3. Financial attitude	1. Financial literacy level	1. Positive effect of financial knowledge and attitude on financial literacy level. 2. Negative effect of financial behavior on financial literacy level. 3. Financial knowledge is positively related to financial behavior and attitude. 4. Financial attitude and behavior are negatively related. 5. Financial literacy is crucial for poverty reduction and development.

Table II. (Continued)

Author	Research Variables		Findings
	Independent Variables	Dependent Variables	
Munyuki and Jonah, 2021	1. Financial literacy	1. Entrepreneurial success	<ol style="list-style-type: none"> Entrepreneurs had high financial literacy, scoring 59.03, above the national average. A positive association between financial literacy and entrepreneurial success was found. The study focused on youth entrepreneurs in economically disadvantaged areas. Mixed-method design used for enhanced understanding of financial literacy.
Yanto, Heri et al, 2022	<ol style="list-style-type: none"> Entrepreneurial skills Health and safety measures Digital literacy Financial literacy 	<ol style="list-style-type: none"> Business sustainability Financial literacy Digital literacy Health and safety measures 	<ol style="list-style-type: none"> Entrepreneurial skills crucial for improving health and safety measures. Health and safety measures have an insignificant impact on business sustainability. MSME sustainability is linked to owners' digital and financial literacy.
Sumani et al, 2022	N/A	N/A	<ol style="list-style-type: none"> The financial literacy level is low, and there is low financial literacy in accessing financing sources. Mudharaba and musyarakah financing scheme suitable for KSU Ketakasi. KSU Ketakasi implements a marketing mix for coffee farming.
Hamdana et al, 2022	<ol style="list-style-type: none"> Financial literacy Technological literacy Supply chain practice 	1. SME sustainability	<ol style="list-style-type: none"> Financial, tech literacy and supply chain practice positively impact SME sustainability. SMEs with good financial management can maintain business continuity. Financial literacy is crucial for SME success and sustainability.
Tumba et al, 2022	<ol style="list-style-type: none"> Financial Education Cash forecasting Bookkeeping practices 	1. Business performance	<ol style="list-style-type: none"> Financial education significantly impacts female entrepreneurs' business performance. Bookkeeping practices contribute more to business performance than cash forecasting.

Table II. (Continued)

Author	Research Variables		Findings
	Independent Variables	Dependent Variables	
Khuc et al, 2022	1. Income 2. Education 3. Age 4. Gender 5. literacy	1. Financial literacy 2. Financial knowledge 3. Financial behaviour 4. Financial attitude	1. Financial knowledge significantly impacts financial literacy in rural areas. 2. Age, income, and education positively influence financial literacy. 3. Gender does not have a significant effect on financial literacy.

The impact of financial literacy is further influenced by sector-specific challenges. For instance, Suman et al., (2022) found that coffee producers in Jember, Indonesia, were unable to access financing and implement effective marketing strategies due to their low levels of financial literacy in the agricultural sector. This suggests a pressing necessity for financial education initiatives that are sector-specific and tailored to the specific needs of various industries, such as agriculture. Enhancing financial literacy in these sectors can not only increase access to financial resources but also enable producers to implement innovative financing and marketing strategies, thereby promoting sectoral growth and sustainability.

The Interplay of Financial Literacy and Other Competencies

The recognition of financial literacy as a competency that is not solely functional but rather in conjunction with other essential skills, such as digital and technological literacy, is on the rise. In today's swiftly evolving digital economy, the integration of these competencies is especially crucial. Yanto et al., (2022) found that MSMEs that possessed higher levels of financial and digital literacy were more capable of maintaining their operations during the COVID-19 pandemic. This synergy between financial and digital literacy implies that the combination of financial education and digital skills training may substantially improve business resilience, particularly during periods of crisis. The capacity to navigate these digital landscapes is as critical as managing finances as businesses become more dependent on digital tools and platforms for operations, marketing, and consumer engagement. Consequently, a comprehensive business education strategy that integrates digital literacy with financial literacy could be instrumental in the development of more resilient and adaptable enterprises.

The relationship between financial literacy and other competencies is not limited to digital skills; it also encompasses operational practices, such as supply chain management. In East Java, Indonesia, Hamdana et al., (2022) investigated the influence of financial literacy, supply chain practices, and technological literacy on the sustainability of small and medium-sized enterprises. Their results underscore the fact that financial literacy alone is insufficient to ensure the long-term success of a business; rather, it must be combined with a comprehensive comprehension of technological advancements and supply chain dynamics. For SMEs that aspire to sustainable growth and market competitiveness, this comprehensive literacy approach, which includes financial, technological, and operational competencies, is indispensable. The study emphasizes the necessity of educational programs that not only instruct financial management but also equip individuals with the comprehensive skills necessary to effectively navigate intricate business environments. This integrated learning approach guarantees that entrepreneurs are not only capable of effectively managing finances, but also of optimizing supply chains and leveraging technology, thereby contributing to the overall sustainability and success of their businesses.

Consequences for Policy and Practice

The critical need for financial literacy programs that are customized to the unique contexts of various regions, sectors, and demographic groups is underscored by the results of this narrative

review. Financial education should not be a universal solution; rather, it should be tailored to the distinctive opportunities and challenges encountered by different demographics. For example, in rural regions where financial services may be scarce, programs should emphasize fundamental financial management skills and strategies to enhance access to finance. In contrast, urban entrepreneurs may benefit from the incorporation of digital literacy and more sophisticated financial planning, as urban business environments are becoming increasingly reliant on technology. Furthermore, it is imperative to ensure that financial literacy programs are gender-sensitive, especially for female entrepreneurs who frequently encounter unique financial obstacles. Empowering women through targeted financial education can substantially improve their economic participation and business performance, as demonstrated by studies conducted in Nigeria and other regions.

These results underscore the critical role of financial literacy in the promotion of economic development and the sustainability of enterprises, particularly in developing economies, from a policy perspective. To ensure that all individuals have access to comprehensive financial literacy programs, policymakers should prioritize the development and implementation of these programs, with a particular focus on marginalized and disadvantaged communities. Government and institutional support are essential in this endeavor, as they can provide the requisite resources and infrastructure to deliver effective financial education. Additionally, the impact and reach of these programs could be expanded by promoting public-private partnerships, which would capitalize on the strengths of both sectors to address the diverse requirements of the population. Policymakers can contribute to sustainable economic growth and development by fostering a more financially intelligent and resilient business community through the integration of financial literacy into broader economic development strategies.

CONCLUSION

The results of this narrative review offer valuable insights that can be used to improve and measure financial literacy in community pharmacies. The review emphasizes the significance of financial literacy in enhancing access to finance, influencing financial behaviors, and guaranteeing the sustainability of businesses—all of which are equally pertinent to the administration of community pharmacies. By incorporating financial literacy with other competencies, such as digital literacy, community pharmacies can effectively manage their finances, optimize operations, and maintain long-term success by implementing the principles and strategies discussed. These insights provide a comprehensive framework for evaluating financial literacy in community pharmacies, thereby facilitating the creation of educational programs that are specifically tailored to the requirements and obstacles encountered by pharmacy managers. Ultimately, this approach has the potential to enhance the financial resilience and professional development of community pharmacies, thereby guaranteeing their ongoing impact on community well-being and public health.

REFERENCES

Banthia, D., & Dey, S. K. (2022). Impact of Financial Knowledge, Financial Attitude and Financial Behaviour on Financial Literacy: Structural Equitation Modeling Approach. *Universal Journal of Accounting and Finance*, 10(1), 327–337. <https://doi.org/10.13189/ujaf.2022.100133>

Hamdana, H., Murwani, F. D., Sudarmiatin, S., & Hermawan, A. (2022). The effects of financial and technology literacy on the sustainability of Indonesian SMEs: Mediating role of supply chain practice. *Uncertain Supply Chain Management*, 10(4), 1449–1456. <https://doi.org/10.5267/j.uscm.2022.6.011>

Julius Tumba, N., A. Onodugo, V., Etim Akpan, E., & Festus Babarinde, G. (2022). Financial literacy and business performance among female micro-entrepreneurs. *Investment Management and Financial Innovations*, 19(1), 156–167. [https://doi.org/10.21511/imfi.19\(1\).2022.12](https://doi.org/10.21511/imfi.19(1).2022.12)

Khuc, T. A., Do, H. L., & Pham, B. L. (2022). Factors influencing financial literacy of the poor in rural areas: Empirical research with the case of Vietnam. *Journal of Eastern European and Central Asian Research (JEECAR)*, 9(4), 638–650. <https://doi.org/10.15549/jeear.v9i4.735>

Lusardi, A., & Mitchell, O. S. (2014). The Economic Importance of Financial Literacy: Theory and Evidence. *Journal of Economic Literature*, 52(1), 5–44. <https://doi.org/10.1257/jel.52.1.5>

Munyuki, T., & Jonah, C. M. P. (2022). The nexus between financial literacy and entrepreneurial success among young entrepreneurs from a low-income community in Cape Town: A mixed-method analysis. *Journal of Entrepreneurship in Emerging Economies*, 14(1), 137–157. <https://doi.org/10.1108/JEEE-01-2020-0020>

Rahim, S., & Balan, V. R. (2021). Financial Literacy: The Impact on the Profitability of the SMEs in Kuching. *International Journal of Business and Society*, 21(3), 1172–1191. <https://doi.org/10.33736/ijbs.3333.2020>

Ripain, N., Amirul, S., & Mail, R. (2017). Financial literacy and SMEs' potential entrepreneurs: The case of Malaysia. *Journal of Administrative and Business Studies*, 3(2). <https://doi.org/10.20474/jabs-3.2.1>

Sumani, S., Roziq, A., Yuliati, L., & Shulton, M. (2022). Financial Literacy Analysis, Marketing Strategies, and Institutional Models of Coffee Farming Creation. *Quality - Access to Success*, 23(187). <https://doi.org/10.47750/QAS/23.187.26>

Susan, M. (2020). Financial Literacy and Growth of Micro, Small, and Medium Enterprises in West Java, Indonesia. *International Symposia in Economic Theory and Econometrics*, 39–48. <https://doi.org/10.1108/S1571-038620200000027004>

Wise, S. (2013). The Impact of Financial Literacy on New Venture Survival. *International Journal of Business and Management*, 8(23), p30. <https://doi.org/10.5539/ijbm.v8n23p30>

Yanto, H., Kiswanto, Baroroh, N., Hajawiyah, A., & Rahim, N. M. (2022). The Roles of Entrepreneurial Skills, Financial Literacy, and Digital Literacy in Maintaining MSMEs during the COVID-19 Pandemic. *Asian Economic and Financial Review*, 12(7), 504–517. <https://doi.org/10.55493/5002.v12i7.4535>

Ye, J., & Kulathunga, K. (2019). How Does Financial Literacy Promote Sustainability in SMEs? A Developing Country Perspective. *Sustainability*, 11(10), 2990. <https://doi.org/10.3390/su11102990>

Yoshino, N. (2016). Major Challenges Facing Small and Medium-Sized Enterprises in Asia and Solutions for Mitigating Them. *SSRN Electronic Journal*. <https://doi.org/10.2139/ssrn.2766242>