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FINANCIAL WISDOM : A FINANCIAL LITERACY MODEL FOR MSMES BASED ON LOCAL WISDOM TO ADDRESS ECONOMIC CHALLENGES

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Abstract

This study aims to analyze the influence of financial literacy and local wisdom on the sustainability of Micro, Small, and Medium Enterprises (MSMEs) and to formulate a local wisdom-based financial literacy model for addressing the challenges of the digital economy. The research employed a mixed-methods approach using a sequential explanatory design. The quantitative phase was conducted through a survey of 100 culinary MSME owners in Parepare City, selected from a population of approximately 17,000 MSMEs using the Slovin formula. The qualitative phase involved in-depth interviews, observations, and Focus Group Discussions (FGDs) to further explore and explain the quantitative findings. Quantitative data were analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results revealed that financial literacy has a positive and significant effect on MSME sustainability, with a path coefficient of 0.45. Local wisdom was also found to have a positive and significant effect, with a path coefficient of 0.37. The R-square value of 0.62 indicates that these two variables explain 62% of the variance in MSME sustainability. Qualitative findings demonstrate that local cultural values such as lempu' (honesty), getteng (consistency and integrity), responsibility, and solidarity strengthen financial discipline, enhance market trust, and improve business resilience. This study proposes the Financial Wisdom Model, which integrates financial literacy, local wisdom-based ethical values, and digital adaptation as a strategy for strengthening MSMEs in a more contextual, ethical, and sustainable manner.

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Penelitian ini bertujuan menganalisis pengaruh literasi keuangan dan kearifan lokal terhadap keberlanjutan UMKM serta merumuskan model literasi keuangan berbasis kearifan lokal dalam menghadapi tantangan ekonomi digital. Penelitian menggunakan pendekatan mixed methods dengan model sequential *explanatory*. Tahap kuantitatif dilakukan melalui survei terhadap 100 pelaku UMKM sektor kuliner di Kota Parepare yang dipilih dari populasi sekitar 17.000 UMKM menggunakan rumus Slovin. Tahap kualitatif dilakukan melalui wawancara mendalam, observasi, dan FGD untuk memperdalam temuan kuantitatif. Analisis kuantitatif menggunakan SEM PLS menunjukkan bahwa literasi keuangan berpengaruh positif dan signifikan terhadap keberlanjutan UMKM dengan koefisien jalur 0,45, sedangkan kearifan lokal juga berpengaruh positif dan signifikan dengan koefisien 0,37. Nilai R Square sebesar 0,62 menunjukkan bahwa kedua variabel mampu menjelaskan 62% variasi keberlanjutan UMKM. Temuan kualitatif memperlihatkan bahwa nilai-nilai lokal seperti *lempu'*, *getteng*, tanggung jawab, dan kebersamaan memperkuat disiplin finansial, kepercayaan pasar, dan ketahanan usaha. Penelitian ini menghasilkan model *financial wisdom*, yaitu integrasi literasi keuangan, etika berbasis kearifan lokal, dan adaptasi digital sebagai strategi penguatan UMKM yang lebih kontekstual, etis, dan berkelanjutan.

INTRODUCTION

Micro, small, and medium enterprises (MSMEs) are an important pillar of the national economy. According to Statistics Indonesia (BPS), Indonesia's economy grew by 5.05% in 2023, while the government continues to position MSMEs as a key driver of economic development due to their contribution of approximately 61% to the national Gross Domestic Product (GDP) and their significant role in employment generation (Statistics Indonesia, 2024; Coordinating Ministry for Economic Affairs of the Republic of Indonesia, 2023). In this context, the sustainability of MSMEs is no longer determined solely by their production and marketing capabilities, but also by the quality of their financial management and their ability to adapt to changes in the business environment.

Financial literacy refers to the ability to understand, evaluate, and use financial information to make sound economic decisions. Theoretically, financial literacy is viewed as a form of human capital that influences the quality of financial decision-making, the efficiency of business management, and the economic resilience of business owners (Lusardi et al., 2014). At the national level, data from the Financial Services Authority (OJK) and Statistics Indonesia (BPS) indicate that the financial literacy index of the Indonesian population still needs to be strengthened, particularly among micro-enterprises that require more effective cash management, financing practices, and financial record-keeping to support business sustainability (Otoritas Jasa Keuangan, 2021 & Badan Pusat Statistik, 2024).

In Parepare City, MSME owners operate within a socio-cultural environment that is still strongly influenced by Bugis-Makassar local values, such as *lempu'* (honesty), *getteng* (steadfastness), responsibility, *sipakatau* (mutual respect and human dignity), and mutual cooperation. These values function not only as social norms but also shape how business owners build trust, maintain relationships, and make economic decisions in their daily business activities. At the same time, the digital economic transformation encourages MSMEs to adapt to the use of social media, online marketplaces, digital payment systems, and simple financial applications.

The main challenge faced by many MSMEs is the lack of optimal integration between modern financial capabilities and the cultural values that have long existed within the community. Limited capabilities in cash record-keeping, separating business and household finances, budgeting, risk management, and utilizing formal financial services remain common obstacles. On the other hand, local cultural values can actually strengthen financial behavior that is disciplined, honest, and long-term oriented when translated into everyday business practices.

A number of previous studies have shown that financial literacy has a positive effect on the performance and sustainability of MSMEs (Amri et al., 2018; Hilmawati et al., 2021; Widayanti et al., 2017; Primandari et al., 2024). Other studies highlight that local wisdom can serve as a reinforcing factor in shaping business ethics, reputation, and the resilience of market relationships (Abdullah et al., 2019; Marunta et al., 2023; Mus et al., 2023). However, studies that explicitly integrate financial literacy and local wisdom within a framework for strengthening MSMEs in the digital era remain relatively limited.

Based on this research gap, this study aims to analyze the influence of financial literacy and local wisdom on the sustainability of MSMEs and to formulate a local wisdom-based financial literacy model that is relevant for MSMEs in Parepare. The novelty of this research lies in the integration of financial competence, local ethics, and digital adaptation into a unified empowerment model referred to as financial wisdom.

METHODS

This research uses a mixed methods approach with a sequential explanatory model. The first stage is carried out through the collection and analysis of quantitative data, followed by the collection and analysis of qualitative data to deepen, explain, and confirm the findings from the first stage. This approach was chosen because the phenomenon of financial literacy based on local wisdom cannot be adequately explained through numbers alone, but also needs to be understood contextually through the experiences and practices of MSME actors (Creswell, 2018).

The population of this study consists of culinary sector MSMEs in Parepare City, which is estimated to be around 17,000 business units. The quantitative sample was determined using the Slovin formula, resulting in 100 respondents. Quantitative data were collected through questionnaires, while qualitative data were obtained through in-depth interviews, observation, and Focus Group Discussions (FGD). Data collection techniques were directed to capture the conditions of financial literacy, appreciation of local wisdom values, and the ability to adapt to the digital economy.

Quantitative analysis was conducted using Partial Least Square Structural Equation Modeling (PLS-SEM) because the model involves latent constructs and is suitable for relatively limited sample sizes (Hair et al., 2021). The testing included convergent validity, average variance extracted, composite reliability, path coefficients, and R-square. Qualitative analysis was carried out through data reduction, thematic categorization, and meaning drawing to explain how local cultural values influence financial management practices and business sustainability.

RESULT AND DISCUSSION

This study shows that the level of financial literacy among MSME owners in Parepare City falls within the moderate category. In general, business owners understand the importance of cash flow recording, cost control, and the separation of business and household finances. However, their implementation remains inconsistent. Some respondents still maintain only simple financial records, do not prepare budgets regularly, and have not optimally utilized formal financial products and services. This condition indicates that financial literacy is still more dominant as basic knowledge rather than as a systematic managerial practice.

The qualitative findings reveal that local wisdom values continue to play an important role in daily business practices. The value of *lempu'* (honesty) is reflected in the commitment to maintaining honesty toward customers, *getteng* (steadfastness) is evident in the consistency of product quality and business commitment, while *sipakatau* (mutual respect and human dignity) and mutual cooperation strengthen social relationships with suppliers, customers, and fellow entrepreneurs. These values foster market trust, which serves as an important asset for MSMEs to survive amid competition and changing consumption patterns.

In responding to the digital economy, some respondents have begun using social media and online marketplaces to expand their marketing reach. Nevertheless, technological adaptation remains at a basic level and has not yet been fully integrated with financial record-keeping, inventory management, or profit evaluation. This limitation suggests that business sustainability in the digital era cannot rely solely on technical online marketing skills, but also requires the ability to systematically manage the financial implications of digital business activities.

Table 1

Summary of Outer Model Evaluation

Variabel	Loading Factor Representatif	AVE	Composite Reliability
Financial Literacy	0,82	0,64	0,88
Local Wisdom	0,79	0,61	0,86
Sustainability of MSMEs	0,85	0,67	0,90

Table 1 presents that the loading factor values for all constructs are above 0.70, while the Average Variance Extracted (AVE) and Composite Reliability values have exceeded the minimum thresholds of 0.50 and 0.70, respectively. Therefore, the research instrument is considered valid and reliable for measuring and explaining the constructs under investigation.

Table 2

Summary of Inner Model Evaluation

Relationship /Variabel	Coefficient / Value	Description
Financial Literacy → Sustainability of MSMEs	0,45	Positive and significant
Local Wisdom → Sustainability of MSMEs	0,37	Positive and significant
R-Square of MSME Sustainability	0,62	Moderate explanatory power

Table 2 presents that an R-Square value of 0.62, indicating that financial literacy and local wisdom simultaneously explain 62% of the variance in MSME sustainability**,** while the remaining 38% is influenced by other factors outside the model. This result suggests that the model has good explanatory power in understanding business sustainability within the context of culinary MSMEs in Parepare.

The results of the PLS analysis indicate that all constructs have met the required criteria for validity and reliability. The main findings of this study confirm that financial literacy has a positive and significant effect on MSME sustainability, with a path coefficient of 0.45. This implies that the better the business owners' understanding and ability to manage financial matters, the greater the likelihood that their businesses will survive and grow. These findings support the view that financial literacy functions not only as administrative knowledge but also as a foundation for business decision-making (Amri et al., 2018; Hilmawati et al., 2021).

At the same time, local wisdom was also found to have a positive and significant effect on MSME sustainability, with a coefficient of 0.37. This finding suggests that business sustainability is driven not only by technical competencies but also by values that guide economic behavior. Honesty, steadfastness, a sense of shame in engaging in dishonest practices, respect for customers, and the habit of maintaining social relationships serve as informal mechanisms that strengthen business discipline and market trust. In the Bugis-Makassar context, values such as *lempu'* (honesty), *siri' na pacce* (self-respect, dignity, and empathy), and *sipakatau* (mutual respect and human dignity) have long been understood as moral foundations for conducting transactions and building business reputation (Abdullah et al., 2019; Marunta et al., 2023).

When compared with previous studies, the findings of this research present an interesting perspective. Several studies have found that financial literacy has a positive effect on the performance and sustainability of MSMEs (Widayanti et al., 2017; Primandari et al., 2024), while other studies suggest that this effect may weaken when business owners face limitations in access to resources, digital capabilities, or institutional support (Idawati et al., 2023). This study provides an additional explanation by showing that local wisdom can serve as a reinforcing factor that enables financial knowledge to be more effectively internalized into business practices and behaviors.

Table 3

Financial Wisdom Model for MSME Empowerment

Dimension	Implementation	Impact on Sustainability
Financial Literacy	Cash flow recording, budgeting, capital planning, risk management, and the utilization of formal financial services.	Improves the quality of business decision-making and cash flow management.
Local Wisdom	Internalization of the values of *lempu'* (honesty), *getteng* (steadfastness), responsibility, *sipakatau* (mutual respect), and mutual cooperation in business relationships.	Strengthens business ethics, market trust, and customer loyalty.
Digital Adaptation	Utilization of social media, online marketplaces, digital payment systems, and simple bookkeeping applications.	Expands market reach, increases efficiency, and supports real-time business evaluation

Based on the integration of quantitative and qualitative findings, this study proposes a financial wisdom model as an approach to strengthening MSMEs. The model incorporates three key elements: financial literacy competence, the internalization of local wisdom values, and adaptation to digital technology. Financial competence enables business owners to understand financial figures and risks; local wisdom instills ethics, discipline, and a long-term orientation; while digital adaptation expands market access and simultaneously requires more accurate management capabilities. These three elements complement one another: financial literacy without ethics may lead to opportunistic practices, cultural values without managerial competence may be insufficient to enhance competitiveness, and digitalization without financial literacy may actually increase business vulnerability.

The financial wisdom model is particularly relevant for MSMEs in Parepare because it aligns with the social realities of business owners, whose activities are still strongly influenced by family relationships, trust, and reputation. Therefore, MSME empowerment programs should not be limited to technical training in accounting or digital marketing. Instead, they should be designed using language, approaches, and values that are closely connected to local culture. Through such an approach, financial learning is not perceived as unfamiliar knowledge but rather as an extension of the values and principles that have long been embraced by the community.

CONCLUSION

Based on the research findings, it can be concluded that financial literacy has a positive effect on MSME sustainability. Business owners who possess better capabilities in financial record-keeping, budgeting, and financial decision-making tend to be more prepared to maintain the continuity and growth of their businesses. In addition, local wisdom also has a positive influence on MSME sustainability, as values such as honesty, perseverance, responsibility, and solidarity foster ethical business behavior, strengthen trust, and sustain long-term relationships with market stakeholders. This study highlights that the integration of financial literacy and local wisdom can be formulated into a financial wisdom model that is highly relevant for addressing the challenges of the digital economy. This model positions financial literacy, local cultural ethics, and digital adaptation as an integrated strategy for strengthening MSMEs. Therefore, business sustainability should not only be understood as the ability to survive economically, but also as the capacity to manage a business responsibly, adaptively, and in harmony with the local socio-cultural context.

Based on these findings, several recommendations can be proposed.

1. Local governments and MSME support institutions should develop financial literacy programs that incorporate local wisdom values, making them more accessible and acceptable to business owners.
2. MSME entrepreneurs should be encouraged to enhance their skills in financial record-keeping, business planning, and the use of digital applications for marketing and bookkeeping purposes
3. Universities and future researchers may expand this model to other business sectors and include additional variables such as digital literacy, access to finance, and business innovation to provide a more comprehensive understanding of MSME sustainability.

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