

The Role of Experiential Financial Behavior in Promoting the Sustainability of SMEs through Endogenous Learning Mechanisms

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ABSTRACT

Purpose: This study aims to analyze the relationship among experiential financial behavior, financial literacy, and MSME sustainability, with financial literacy as a mediating variable in the context of experiential financial learning.

Research Method: The study employed a quantitative, cross-sectional survey design involving 120 MSME operators in Gorontalo City, selected through purposive sampling. The data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS).

Results and Discussion: The study results indicate that experiential financial behavior is positively associated with financial literacy and business sustainability. Financial literacy is also positively associated with business sustainability and partially mediates this relationship. These findings indicate a close relationship between financial experience, financial literacy, and the business sustainability of MSMEs.

Implications: This study emphasizes the importance of an experience-based learning approach in strengthening the financial capacity and sustainability of MSMEs.

Originality: The novelty of this research lies in its effort to reposition financial literacy as a capacity that develops through financial experiences.

Keywords: experiential financial behavior; financial literacy; MSME sustainability; financial learning.

1. Introduction

The primary contradiction in the sustainability of micro, small, and medium-sized enterprises (MSMEs) lies in the paradox of financial activity: business owners are actively engaged in financial transactions and have access to capital, yet still face obstacles to ensuring the long-term sustainability of their businesses. The literature indicates that high levels of financial activity are not always accompanied by adequate understanding, thereby creating a gap between engagement and capability (Hasan *et al.*, 2024; Tandilino *et al.*, 2025). This underscores that business sustainability is determined not only by the intensity of financial activity but also by the quality of financial decisions. In practice, many SME operators are trapped in an illusion of sustainability, where cash flow appears to be flowing but does not reflect true financial health. Therefore, a deeper understanding of the relationships among financial activity, financial management capacity, and SME sustainability is required.



To date, the dominant literature has positioned financial literacy as a behavioral antecedent, drawing on the cognitive-rationalist paradigm, human capital approaches, and the Theory of Planned Behavior (Lusardi & Mitchell, 2014). However, these approaches tend to oversimplify the behavioral realities of SME actors and overlook the complexity of financial experiences in daily business activities, including issues with the validity of financial literacy measures that have not yet been fully standardized (Rekha *et al.*, 2024). In this context, financial literacy is generally understood as an individual's ability to understand and evaluate financial information. In contrast, experiential financial behavior more accurately reflects an individual's practical experience with financial activities and decision-making. Meanwhile, business sustainability is positioned as a long-term business outcome reflecting a business's ability to survive and adapt to changes in the business environment.

The issue of reverse causality suggests that engagement in financial activities is likely associated with increased financial literacy, rather than being solely influenced by pre-existing literacy (Bucher-Koenen & Lusardi, 2011; Hastings *et al.*, 2013; Frijns *et al.*, 2013; Stolper & Walter, 2017). These findings indicate that the relationship between financial experience and financial literacy is more complex than the linear assumption that positions knowledge as a factor that always precedes action. Thus, the assumption that financial knowledge automatically shapes financial behavior needs to be critically re-examined, particularly in the context of SMEs, which are characterized by practice-based learning. Furthermore, financial experience generates tacit knowledge that is not fully captured by formal literacy measures, thereby introducing bias in the assessment of business actors' actual capacity (Wuytens *et al.*, 2022; Lusardi & Mitchell, 2023). Behavioral factors such as present bias and overconfidence continue to influence decision-making, even among individuals with good financial literacy (Suresh, 2024). This situation is exacerbated by weak financial management, including a lack of separation between business and household finances and poor financial record-keeping (Olarewaju & Msomi, 2021). Consequently, business owners often fail to identify their actual financial condition and make appropriate decisions. This indicates that formal financial literacy is insufficient to explain financial behavior fully. While financial experience can enhance adaptability, it can also lead to biased decision-making if business owners rely too heavily on intuition, past experiences, or perceptions of short-term success.

Conventional financial literacy approaches are also considered ineffective at changing behavior because they do not always account for the real-world experiences and contexts of business owners (Abdallah *et al.*, 2024). In the context of SMEs, direct experience with financial activities often serves as a source of practical learning that shapes business owners' understanding and financial decision-making (Hastings *et al.*, 2012; Frijns *et al.*, 2013). However, this process is slow and high-risk, particularly for strategic decisions with significant impact, and can create blind spots due to reliance on experience (Hastings *et al.*, 2012, 2013; Widagdo & Sa'diyah, 2023). In conditions of economic uncertainty, this weakness further increases the risk of business failure because SME actors lack adequate corrective mechanisms. This indicates that experience, while important, does not always result in optimal learning without reflection, evaluation, and adaptation to changes in the business environment. Although various studies have discussed the relationship between financial literacy and business sustainability, most research still treats financial literacy as an exogenous variable preceding financial behavior. This approach has not fully explained the dynamics of SME entrepreneurs' financial learning, which, in practice, develops primarily through direct experience in daily business activities. Furthermore, previous research has tended to focus on formal cognitive dimensions. It has not sufficiently integrated experiential financial behavior as a crucial component in developing business owners' financial capacity.

Some studies on experiential learning in a financial context still face limitations in explaining how financial experiences relate to business sustainability through mechanisms of financial literacy. This gap indicates that the relationship between financial experience, financial literacy, and business sustainability has not yet been fully understood as a dynamic, contextual, and potentially non-linear process. Therefore, an approach is needed that can integrate the dimensions of experience, behavior, and financial capacity into a more comprehensive analytical framework. To address this gap, this study aims to analyze the relationships among experiential financial behavior, financial literacy, and MSMEs' business sustainability. Specifically, this study explores whether experiential financial behavior is related to the level of financial literacy among MSME actors and tests whether financial literacy mediates this relationship. This study also examines the direct relationship between experiential financial behavior and the business sustainability of MSMEs to gain a more comprehensive understanding of the dynamics of experience-based financial learning.

The novelty of this study lies in integrating experiential financial behavior, financial literacy, and business sustainability into a single empirical model that positions financial experience as a crucial component in developing MSMEs' financial capacity. This approach is expected to provide a more contextual perspective in understanding the paradoxical phenomenon of financial activities among MSMEs. In addition to making a theoretical contribution to the development of an experience-based financial literacy model, this study is expected to provide practical contributions to formulating strategies to enhance the business sustainability of MSMEs.

The remainder of this paper is organized as follows. Section 2 provides a literature review and hypothesis development. Section 3 presents the research method and design. Section 4 provides a discussion. Section 5 is Concluding Remarks and Recommendations.

2. Literature Review and Hypothesis Development

The literature on the sustainability of micro, small, and medium-sized enterprises (MSMEs) has long been dominated by approaches that view financial literacy as the primary factor influencing business behavior and the quality of business decision-making. However, recent developments in the field suggest that the relationship between financial experience, financial literacy, and business sustainability is likely more complex than the linear assumptions in conventional models. Therefore, this section discusses experiential financial behavior, financial literacy as part of the financial learning process, and MSME business sustainability as a long-term business outcome.

This study is grounded in a critique of conventional approaches that treat financial literacy as a behavioral antecedent in explaining the sustainability of micro, small, and medium enterprises (MSMEs). In practice, SME entrepreneurs do not always acquire financial literacy through formal education but rather through direct experience in daily financial activities. Engagement in financial decision-making—such as cash management, the use of financing, and interactions with market risks—forms an experiential learning process (learning by doing) that gradually enhances an individual's financial understanding. In this study, experiential financial behavior is understood as the practical involvement of business owners in daily financial activities and decision-making, such as cash management, the use of financing, and responses to business risks. This construct emphasizes experience and direct interaction with financial activities rather than cognitive abilities in understanding financial information. The literature indicates a relationship between financial experience and an individual's level of financial

literacy, meaning that literacy cannot always be positioned as a fully exogenous variable (Frijns *et al.*, 2013; Stolper & Walter, 2017). Thus, experiential financial behavior is viewed as a key driver of financial literacy development in the SME context.

Unlike experiential financial behavior, financial literacy in this study is understood as an individual's ability to understand, evaluate, and use financial information in business decision-making. Thus, financial literacy more strongly reflects evaluative and cognitive capacities than experience with financial activities. On the other hand, financial literacy still plays a crucial role in determining the quality of decision-making that impacts business sustainability. Nurhayati (2024) emphasizes that financial management and comprehension skills are critically linked to supporting business growth, innovation, and the sustainability of business activities. Literacy developed through experience enables business owners to understand risks better, manage resources efficiently, and make more rational decisions under uncertainty. However, the literature also indicates that financial literacy does not always directly lead to business sustainability, as its impact often depends on how that knowledge is translated into actual financial behavior. This underscores that financial literacy serves as a mechanism linking financial experience to business outcomes, rather than as a single determinant of business performance.

Meanwhile, the sustainability of MSMEs is positioned as a long-term business outcome that reflects a business's ability to maintain operations, adapt to changes in the business environment, and ensure continuity under uncertainty. Therefore, business sustainability is not only related to individual financial competence but also reflects a business's capacity to maintain stability and business continuity. Auliyah & Agit (2024) explain that management capabilities and the quality of financial information are significantly correlated with business performance and long-term sustainability. Additionally, experiential financial behavior can directly influence business sustainability. Experience gained through financial activities enables SME entrepreneurs to develop business intuition, recognize risk patterns, and adapt more effectively to market dynamics. However, this mechanism does not always function optimally because experience-based learning is unsystematic and prone to biases, such as present bias and overconfidence, which can lead to errors in decision-making (Hastings *et al.*, 2012, 2013; Suresh, 2024). In addition to enhancing adaptability, financial experience can also introduce decision-making biases if business owners rely too heavily on intuition or past successes without adequate evaluation. Therefore, while experience can enhance capabilities, without adequate financial literacy support, its impact on business sustainability becomes inconsistent.

Based on these empirical findings and conceptual developments, this study aims to provide a more contextual perspective on the relationship among financial experience, financial literacy, and MSME sustainability. The proposed model not only highlights the importance of cognitive capacity in financial decision-making but also considers the role of practical experience within the financial learning dynamics of business owners.

This study proposes a model examining the relationships among experiential financial behavior, financial literacy, and MSME sustainability within the context of experience-based financial learning. This model also accounts for the direct influence of experiential financial behavior on business sustainability to test whether financial literacy acts as a partial mediator. With this approach, the study not only examines the relationships among variables but also provides insight into the potential relationship between financial experience and the development of financial literacy capacity in a real-world business context. Therefore, the proposed model is expected to offer a more comprehensive explanation of the paradox of financial activities and provide an alternative approach to understanding the dynamics of SME sustainability. Consequently, the hypotheses proposed in this study are as follows:



- H1:** *Experiential financial behavior is positively correlated with financial literacy.*
- H2:** *Experiential financial behavior is positively associated with the sustainability of MSMEs.*
- H3:** *Financial literacy is positively correlated with the sustainability of MSMEs.*
- H4:** *Financial literacy is believed to mediate the relationship between experiential financial behavior and MSME sustainability.*

3. Research Method

This study employs a quantitative, cross-sectional survey design to examine the relationships among experiential financial behavior, financial literacy, and business sustainability among MSMEs in Gorontalo City. Analysis was conducted using Structural Equation Modeling–Partial Least Squares (SEM-PLS), selected for its ability to simultaneously analyze relationships among latent constructs and its suitability for both predictive and exploratory research (Hair *et al.*, 2021). This approach also allows for testing both direct and indirect relationships within a single structural model (Sarstedt *et al.*, 2020). However, given that this study employs a cross-sectional design, the analysis results are not intended to explain causal relationships absolutely but rather to explore relationships among variables based on respondents' perceptions during a specific observation period. Data were collected via a structured questionnaire using a 5-point Likert scale, ranging from strongly disagree to agree strongly.

The study population consists of MSME owners in Gorontalo City who are directly involved in business financial decision-making. The sampling technique used was purposive sampling, with respondents selected based on having operated a business for at least one year and possessing experience in business financial management. Data collection was conducted from January to March 2026 by distributing questionnaires, both in person and online, to SME operators meeting the study criteria. The sample size was determined based on SEM-PLS recommendations, specifically, at least 10 times the number of paths in the largest path set in the structural model (Hair *et al.*, 2021). Additionally, the sample size meets the minimum requirements for SEM-PLS-based predictive model analysis, ensuring that parameter estimates are stable and sufficient for testing the structural model.

The construct of experiential financial behavior is operationalized as business owners' practical engagement in daily financial activities and decision-making. This construct focuses on entrepreneurs' actual experiences in managing financial activities, rather than on evaluative abilities or formal financial knowledge. Drawing on literature emphasizing that experience is linked to the development of financial literacy (Frijns *et al.*, 2013; Stolper & Walter, 2017), this construct is measured through several indicators, namely the operational duration in managing business finances, the intensity of financial transactions through the use of products such as business credit and savings, experience in dealing with financial events such as cash flow difficulties or debt restructuring, as well as the perception of improved financial capability through hands-on practice (learning by doing) (Hastings *et al.*, 2012; Ismanto & Pebruary, 2022).

Financial literacy is measured as a multidimensional construct that reflects an individual's ability to understand, evaluate, and use financial information in business decision-making. Unlike experiential financial behavior, which emphasizes direct experience with financial activities, the construct of financial literacy focuses more on the cognitive and evaluative capacity of business actors to understand financial information. Given the absence of a single standard for measuring financial literacy among SMEs (Rekha *et al.*, 2024), this study adopts an approach that encompasses basic financial concepts such as

compound interest, inflation, and the time value of money; knowledge related to debt management (debt literacy); the ability to distinguish between business and personal finances as part of financial capability; and the ability to acquire financial information through the use of technology (knowledge acquisition) (Purwidiyanti & Tubastuvi, 2019; Rachapaettyakom *et al.*, 2020; Ismanto & Pebruary, 2022).

Table 1. Operationalization of Research Variables

Variable	Indicator	Code	Statement/Questionnaire Item
Experiential Financial Behavior (X)	Operating Hours	X1	<ul style="list-style-type: none"> ▪ I have been managing my business finances on my own for quite some time ▪ My experience in managing business finances has grown over time
	Transaction Volume	X2	<ul style="list-style-type: none"> ▪ I frequently use financial products (business savings accounts, loans, etc.) in my business activities ▪ I actively conduct financial transactions to support business operations
	History of Financial Events	X3	<ul style="list-style-type: none"> ▪ I have faced business financial problems (such as cash flow difficulties or debt) ▪ I can resolve business financial issues based on my previous experience
	Learning by Doing	X4	<ul style="list-style-type: none"> ▪ I learned how to manage business finances through hands-on experience in the field ▪ My financial skills have improved thanks to my experience running a business
Financial Literacy (M)	General Financial Knowledge	M1	<ul style="list-style-type: none"> ▪ I understand basic financial concepts such as interest and inflation ▪ I understand the importance of the time value of money in business management
	Debt Literacy	M2	<ul style="list-style-type: none"> ▪ I understand the costs and risks associated with using debt in business ▪ I can choose the type of loan that is right for my business
	Financial Capability	M3	<ul style="list-style-type: none"> ▪ I keep my business finances separate from my personal finances ▪ I can manage the business's finances in a systematic manner
	Knowledge Acquisition	M4	<ul style="list-style-type: none"> ▪ I use technology or digital media to obtain financial information ▪ I actively seek out the latest information on business financial management
Business Sustainability (Y)	Financial Health	Y1	<ul style="list-style-type: none"> ▪ I regularly manage the business's cash flow effectively ▪ I regularly prepare a budget for my business
	Operational Continuity	Y2	<ul style="list-style-type: none"> ▪ My business has managed to survive despite the difficult economic conditions ▪ My business has remained stable over the long term
	Technology Adoption	Y3	<ul style="list-style-type: none"> ▪ I use technology (financial apps/fintech) to manage my business ▪ The use of technology has helped improve the efficiency of my business
	Strategic Adaptability	Y4	<ul style="list-style-type: none"> ▪ I can adjust my business strategy based on financial conditions ▪ I use financial information to make strategic business decisions

Source: Cited by researchers from various accredited research sources (2026)



Business sustainability is operationalized as a business's ability to maintain operations and adapt to changes in the business environment over the long term. This construct is positioned as a business outcome distinct from individual financial experiences or cognitive capacity; thus, its measurement focuses on the business's operational continuity, business stability, and strategic adaptability. This construct is measured through indicators reflecting the business's financial health, such as the ability to manage cash flow and conduct regular budgeting, operational sustainability in the face of economic pressures, the level of adoption of financial technology to enhance efficiency, and strategic adaptability based on available financial information (Olawaju & Msomi, 2021; Widagdo & Sa'diyah, 2023; Babajide *et al.*, 2021).

Before the main data collection, the research instrument underwent a content evaluation and a pilot test with several MSME operators to ensure linguistic clarity, indicator relevance, and alignment of the measurement context with the characteristics of the research respondents. Additionally, this study also conducted a check for missing data prior to the analysis phase. Questionnaires that were not fully completed were excluded from the data processing.

Data analysis was conducted in two stages: evaluation of the outer and inner models. The evaluation of the outer model aimed to assess construct validity and reliability using factor loadings, average variance extracted (AVE), composite reliability, and Cronbach's alpha. Factor loading values are expected to be greater than 0.70 and AVE greater than 0.50 to indicate adequate convergent validity (Hair *et al.*, 2021). To reduce potential overlap between constructs, discriminant validity was carefully evaluated using the heterotrait-monotrait ratio (HTMT) and Fornell-Larcker criteria to ensure that each construct possesses sufficient conceptual and empirical differentiation (Henseler *et al.*, 2015). Additionally, common method bias was tested by developing separate items for each construct and using clear instructions to minimize respondent perception bias. Furthermore, an inner model evaluation was performed to examine relationships among variables using path coefficients and their significance, with bootstrapping procedures. Bootstrapping was performed by resampling 5,000 subsamples to obtain more stable parameter estimates and reduce bias in model estimation. Model strength was analyzed using the coefficient of determination (R^2), effect size (f^2), and predictive relevance (Q^2). A mediation test was conducted to determine whether financial literacy mediates the relationship between experiential financial behavior and business sustainability. Mediation was deemed significant if the indirect path was significant, as determined by the bootstrapping test (Hair *et al.*, 2021; Sarstedt *et al.*, 2020). By operationalizing variables that distinguish the dimensions of financial experience, cognitive capacity, and business outcomes, this study is expected to provide a more contextually grounded empirical understanding of the relationships among experiential financial behavior, financial literacy, and the sustainability of MSMEs.

4. Results and Discussion

4.1 Analysis Results

A total of 120 MSME owners in Gorontalo City participated in this study, in accordance with the sampling criteria established in the methodology. By business type, respondents were predominantly from the trade and services sectors, with a small portion from small-scale manufacturing. In terms of business tenure, the majority of respondents had been running their businesses for 1 to 5 years, indicating that they possessed basic experience in business financial management. All respondents were business

owners actively involved in day-to-day business financial decision-making. Geographically, this study focused on the Gorontalo City area, where SMEs are highly reliant on practical business management experience.

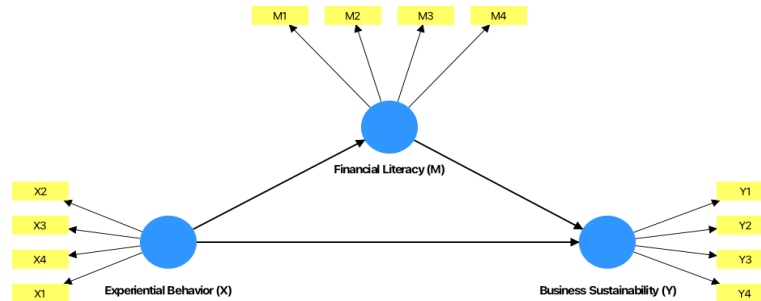


Figure 1. Research Model

4.1.1 Evaluation of the Outer Model (Measurement Model)

An evaluation of the measurement model (outer model) was conducted to assess the reliability and construct validity of the constructs used in the study. The results of the analysis indicate that all constructs meet the criteria for good reliability. The Cronbach’s alpha values for each variable were above the minimum threshold of 0.70, specifically 0.782 for business sustainability, 0.842 for experiential financial behavior, and 0.839 for financial literacy. Additionally, the composite reliability (rho_c) values also indicated high internal consistency, at 0.861, 0.893, and 0.895, respectively, so all constructs can be deemed reliable (Hair *et al.*, 2021).

Convergent validity was evaluated using the average variance extracted (AVE) values. The results showed that all constructs had AVE values above the 0.50 threshold, specifically 0.612 for business sustainability, 0.676 for experiential financial behavior, and 0.684 for financial literacy. This indicates that each construct explains more than 50% of the variance in its indicators, thereby meeting the criteria for adequate convergent validity (Hair *et al.*, 2021). However, the discriminant validity test using the Fornell-Larcker criteria indicates that not all constructs meet the required thresholds. The square root of the AVE for the business sustainability construct (0.782) is lower than its correlation with the experiential financial behavior construct (0.866) and the financial literacy construct (0.900). The same pattern is observed for the financial literacy construct, where the AVE (0.827) remains lower than its correlations with the other constructs. These findings suggest conceptual overlap among the constructs, particularly between experiential financial behavior, financial literacy, and business sustainability, indicating that the empirical boundaries between these constructs are not yet clearly distinguished when relying solely on the Fornell-Larcker criteria.

Table 2. Validity and Reliability

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
Business Sustainability (Y)	0.782	0.806	0.861	0.612
Experiential Behavior (X)	0.842	0.864	0.893	0.676
Financial Literacy (M)	0.839	0.850	0.895	0.684

Source: Test Results (2026)



Table 3. Results of the Fornell-Larcker Criterion

	Business Sustainability (Y)	Experiential Behavior (X)	Financial Literacy (M)
Business Sustainability (Y)	0.782		
Experiential Behavior (X)	0.866	0.822	
Financial Literacy (M)	0.900	0.815	0.827

Source: Test Results (2026)

To complement the assessment of discriminant validity, further testing was conducted using the heterotrait-monotrait ratio (HTMT) approach, which is considered more sensitive in detecting discriminant validity issues in variance-based SEM (Henseler *et al.*, 2015). The analysis results showed that all HTMT values were below the maximum threshold of 0.90, specifically 0.367 between experiential financial behavior and business sustainability, 0.125 between financial literacy and business sustainability, and 0.424 between experiential financial behavior and financial literacy.

Table 4. Heterotrait-Monotrait Ratio (HTMT) Matrix

	Business Sustainability (Y)	Experiential Behavior (X)	Financial Literacy (M)
Business Sustainability (Y)			
Experiential Behavior (X)	0.367		
Financial Literacy (M)	0.125	0.424	

Source: Test Results (2026)

Although the HTMT results indicate that each construct still exhibits sufficient statistical differentiation, these results must be interpreted with caution because the latent correlations among the constructs in the model are relatively high. This suggests that experiential financial behavior, financial literacy, and business sustainability are closely interrelated in the context of MSME financial management, indicating potential conceptual overlap among these constructs. Therefore, the discriminant validity in this study is considered statistically adequate but still has conceptual limitations.

Thus, the measurement model in this study is deemed sufficiently valid to proceed to the structural equation modeling phase, while still accounting for the limitations of discriminant validity when interpreting the research results.

4.1.2 Evaluation of the Inner Model (Structural Model)

The results of the structural model evaluation indicate that the model has a high explanatory power for the endogenous variables. The coefficient of determination (R^2) for the financial literacy variable is 0.665, indicating that 66.5% of the variation in financial literacy can be explained by experiential financial behavior. Meanwhile, the R^2 for the business sustainability variable is 0.862, indicating that the combination of experiential financial behavior and financial literacy explains 86.2% of the variation in business sustainability.

Table 5. R-Square

	R-square	R-square adjusted
Business Sustainability (Y)	0.862	0.860
Financial Literacy (M)	0.665	0.662

Source: Test Results (2026)



This R^2 value indicates that the model has a high explanatory power for the endogenous variable. However, the very high R^2 value for business sustainability must also be interpreted with caution, as the conceptual proximity between constructs and potential overlap among indicators in the context of business financial management may influence it.

Furthermore, the evaluation of predictive relevance (Q^2) indicates that the model possesses good predictive capability. A Q^2 value greater than zero for the endogenous variables indicates that the model has adequate predictive relevance for the observed data, meaning it not only describes the relationships among variables but also predicts empirical phenomena in the context of MSMEs in Gorontalo City.

4.1.3 Hypothesis Test Results

Testing relationships between variables was conducted using path coefficient analysis, which indicates the direction and strength of relationships among the model's constructs. The analysis shows that experiential financial behavior is positively related to financial literacy, with a coefficient of 0.815. Furthermore, financial literacy is positively related to business sustainability with a coefficient value of 0.577. Furthermore, experiential financial behavior shows a direct relationship with business sustainability, with a coefficient of 0.396. To confirm the significance of these relationships, a bootstrapping test was conducted. The results show that all paths between variables have t-statistics greater than 1.96 and p-values less than 0.05, so all relationships between constructs in the model are statistically significant.

Thus, all hypotheses proposed in this study are supported by empirical data. Next, an effect size (f^2) analysis was conducted to measure the magnitude of each exogenous variable's contribution to the endogenous variable. The results indicate that the effect of experiential financial behavior on financial literacy falls into the large category with an f^2 value of 1.982. Meanwhile, the effect of financial literacy on business sustainability has an f^2 of 0.810, whereas the direct effect of experiential financial behavior on business sustainability has an f^2 of 0.382.

Table 6. Results of the Significance Test

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Experiential Behavior (X) → Business Sustainability (Y)	0.396	0.388	0.092	4.310	0.000
Experiential Behavior (X) → Financial Literacy (M)	0.815	0.819	0.030	27.090	0.000
Financial Literacy (M) → Business Sustainability (Y)	0.577	0.588	0.087	6.613	0.000
Experiential Behavior (X) → Financial Literacy (M) → Business Sustainability (Y)	0.470	0.482	0.083	5.685	0.000

Source: Test Results (2026)

The effect size results indicate that experiential financial behavior and financial literacy make a substantial contribution to explaining business sustainability. However, the magnitude of these effect sizes also suggests that the relationships between constructs in the model are very strong, so the

interpretation of the results must take into account the possibility of conceptual proximity among the variables used in this study.

Tabel 7. F-Square Matrix Evaluation

	Business Sustainability (Y)	Experiential Behavior (X)	Financial Literacy (M)
Business Sustainability (Y)			
Experiential Behavior (X)	0.382		1.982
Financial Literacy (M)	0.810		

Source: Test Results (2026)

Finally, a mediation test was conducted to determine the role of financial literacy in the relationship between experiential financial behavior and business sustainability. The results show that the indirect path through financial literacy is significant, and the direct path from experiential financial behavior to business sustainability is significant as well. These findings indicate that financial literacy partially mediates the relationship between experiential financial behavior and business sustainability. Thus, experiential financial behavior is not only directly related to business sustainability but also indirectly related through financial literacy.

4.2 Discussion

The test results show that experiential financial behavior is positively and significantly correlated with financial literacy. This finding reinforces the argument that financial literacy among MSME entrepreneurs is not solely acquired through formal education but also develops through experience-based learning (learning by doing). This finding indicates that financial experience is strongly linked to the development of entrepreneurs’ financial understanding and capacity. Theoretically, these results align with the experiential learning perspective, which positions experience as a key source in the learning process (Kolb, 1984), while also supporting empirical findings that engagement in financial activities is associated with improved individual financial understanding (Frijns *et al.*, 2013; Stolper & Walter, 2017). Thus, in the context of SMEs, financial literacy is better understood as a capacity that develops through direct interaction with financial activities, rather than merely as an initial prerequisite acquired through formal education (Hastings *et al.*, 2013). However, given that this study employs a cross-sectional design, this relationship cannot be interpreted as an absolute causal relationship, indicating that experience directly shapes financial literacy. These findings are better understood as an indication of a close relationship between financial experience and the development of financial literacy in the context of SMEs. They also suggest a bidirectional relationship (reverse causality) in which financial experience and financial literacy are dynamically interrelated (Bucher-Koenen & Lusardi, 2011).

Furthermore, financial literacy was found to have a positive and significant relationship with business sustainability. This finding suggests that financial literacy is associated with higher-quality decision-making, particularly in cash flow management, the selection of financing sources, and business risk control. These findings align with the literature, indicating that individuals with higher levels of financial literacy tend to have a greater capacity to make rational and sustainable economic decisions (Lusardi & Mitchell, 2014). However, this relationship is neither linear nor absolute. Studies in behavioral finance indicate that financial literacy is often conditional and influenced by behavioral factors such as cognitive biases, self-control, and risk perception (Suresh, 2024). Thus, financial literacy cannot be



understood as a single factor that automatically guarantees business success, but rather as a capacity that helps business owners improve the quality of their financial evaluation and decision-making. This finding also indicates that the level of financial knowledge does not solely determine the sustainability of MSMEs but is also influenced by how that knowledge is translated into daily business management practices.

Subsequent hypothesis testing shows that experiential financial behavior also has a direct relationship with business sustainability. This finding indicates that financial experience is not only related to financial literacy but also directly contributes to business resilience. This can be explained through the concept of tacit entrepreneurial knowledge—implicit knowledge that develops through experience and is difficult to formalize (Wuytens *et al.*, 2022). In practice, SME entrepreneurs often rely on experience-based intuition when making decisions, particularly under conditions of uncertainty and limited access to formal information. These findings also align with the view that experience-based learning enables entrepreneurs to develop faster adaptability to changes in the business environment (Hastings *et al.*, 2012). However, this relationship does not fully imply that experience always leads to better decisions. Experience gained through trial and error can also create decision-making biases if business owners rely too heavily on intuition, past successes, or subjective perceptions without adequate evaluation. Furthermore, experience-based learning is a slow and high-risk process, particularly when business owners face strategic decisions with significant implications for business sustainability (Hastings *et al.*, 2013). Thus, experience can be both a source of strength and a potential weakness in sustaining MSMEs.

The results of the mediation test indicate that financial literacy partially mediates the relationship between experiential financial behavior and business sustainability. This finding suggests that part of the relationship between financial experience and business sustainability is mediated by financial literacy. However, because a direct relationship was still observed, financial literacy does not fully explain it. This finding contributes theoretically by demonstrating that the relationship among experience, literacy, and sustainability is complementary rather than substitutive. In other words, financial experience is associated with the development of financial understanding and capacity, which in turn influences the quality of business decision-making (Ullah *et al.*, 2024). Nevertheless, these results should be interpreted cautiously, as the cross-sectional research design cannot definitively establish the temporal sequence of this mediating relationship. Therefore, the mediation findings in this study are better understood as indicating an indirect relationship among variables rather than as a fully confirmed causal mechanism. This perspective challenges conventional models that treat literacy as an exogenous variable and supports an alternative approach that views literacy as part of an experience-based learning process (Hasan *et al.*, 2024).

Overall, the findings of this study indicate that business sustainability is not only related to the level of financial activity or knowledge possessed but is also influenced by the dynamic interaction between experience, literacy, and decision-making behavior. The combination of direct and indirect relationships suggests that MSME actors rely heavily on experience for practical learning but still require financial literacy to improve the quality of their decisions. Nevertheless, the relationships among constructs in the model indicate a very strong interdependence, so the possibility of conceptual overlap among variables must be considered in interpreting the research results. This aligns with the findings of the discriminant validity evaluation, which show that experiential financial behavior, financial literacy, and business sustainability exhibit a high degree of empirical correlation within the context of SME financial management. Therefore, the primary contribution of this study lies in repositioning financial

literacy—shifting its understanding from a static input to a capacity that develops through financial experience. This approach offers a more contextual understanding of SME dynamics, particularly in developing countries, where financial learning occurs more through direct practice than through formal education (Amagir *et al.*, 2018).

5. Concluding Remarks and Recommendation

This study aims to analyze the relationship among experiential financial behavior, financial literacy, and MSME sustainability, treating financial literacy as a mediating variable in the context of experience-based financial learning. The study employed a quantitative, cross-sectional survey design among MSME operators in Gorontalo City. The results indicate that experiential financial behavior is positively associated with financial literacy and MSME business sustainability. Financial literacy also shows a positive relationship with business sustainability and plays a partial mediating role in the relationship between financial experience and business sustainability. These findings indicate that financial experience, financial literacy, and business sustainability are closely interrelated in the context of SME financial management. However, given that this study employs a cross-sectional design, the results cannot be interpreted as an absolute causal relationship but rather as an indication of the relationship between variables based on the respondents' empirical conditions during a specific observation period.

The theoretical implications of this study lie in the effort to reposition financial literacy from what was previously often understood as an exogenous variable into a capacity that develops through daily business experiences and practices. This study also offers an alternative perspective to conventional financial literacy approaches, which have traditionally emphasized formal cognitive dimensions over the practical experiences of business owners. Practically, the research findings indicate that strengthening SME sustainability is not sufficient through conventional financial literacy training alone; it must also incorporate experience-based approaches, such as business mentoring, decision-making simulations, and financial technologies that support continuous financial learning. Furthermore, this study contributes to expanding the understanding of the dynamics of SME financial management, particularly in developing countries, where financial learning occurs more through direct practice than through formal education.

This study has several limitations. First, the use of a cross-sectional design has not captured the dynamics of financial learning over time, so the relationships between variables cannot yet be used to explain the temporal sequence with certainty. Second, the results of the discriminant validity evaluation indicate that several constructs in the model have high conceptual proximity, particularly between experiential financial behavior, financial literacy, and business sustainability. This indicates that the empirical boundaries between constructs are not yet clearly distinct, so results must be interpreted with caution. Third, this study focuses solely on MSMEs in Gorontalo City, so generalizing the findings to other regions with different economic and social characteristics remains limited. Therefore, future research is recommended to use a longitudinal approach to understand the dynamics of financial learning more deeply, expand the scope of the study area, and consider additional variables such as behavioral biases, entrepreneurial resilience, and technology adoption as factors that can strengthen or weaken the relationships between variables in the research model.

Statement of Use of Generative AI

During the preparation of this work, the author used ChatGPT to assist in improving clarity and readability of the text. The author reviewed and edited the output and takes full responsibility for the content of the publication.

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