

THE IMPACT OF RISK AND FINANCIAL KNOWLEDGE

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The Impact of Risk and Financial Knowledge, Business Culture and Financial Practice on SME Performance

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Abstract

The objective of this study is to analyze the effect of risk knowledge, financial knowledge and business culture on financial practice and SME performance. This research method is quantitative by using a structural model. In this study, 475 of 635 SME owners in Central Java Indonesia, are willing to answer the questionnaires well. The results showed that (1) risk knowledge had positive and significant influences on financial practices and had both direct and indirect influences on the SMEs' performance, (2) financial knowledge had positive and significant influences on financial practice and had both direct and indirect influences on SME performance, and (3) business culture had positive and significant influences on financial practice and had both direct and indirect influences on the SME performance.

Keywords: risk knowledge; financial practice; SME performance.

1. Introduction

In the midst of a turbulent economy, Small and Medium Enterprises (SMEs) always support the country's economy. For developing countries like Indonesia, the existence of SMEs as an engine of economic growth is an inevitable fact. According to survey conducted by World Bank (2018), there are three main challenges faced by developing countries. They are creating jobs, improving the quality of work, and connecting people to jobs. These three challenges are big tasks of the Indonesian government to make the people welfare. One of the government's programs to deal with the challenges is supporting the development of SMEs. This program is conducted by increasing entrepreneurship education and financial knowledge of entrepreneurs and facilitating them to obtain additional capital from financial institutions.

SMEs in Indonesia are getting attention from the central and regional governments to be developed continuously. Data from the Ministry of Cooperatives and Small and Medium Enterprises in 2017 showed that there were 62,922,612 SME business units registered¹. The development of SME business units in Indonesia is so rapid. It is increasing 13.98% from 2012. SMEs in Indonesia have contributed 97.02% in employment and contributed from 57.08% to 60.00% of GDP. The significant data show that SMEs have important role in improving people's welfare. For this reason, SMEs have to be empowered and developed sustainably. The government efforts in developing highly competitive entrepreneurship are by encouraging SMEs to understand market opportunities, professional business management, and ability in promoting products.

It is not only companies which spend a lot of tangible and intangible resources to achieve superior and competitive performance but also SMEs coming from the lower educated owners. Education and work experience are the most important

capital for them to run a business. Meanwhile, most of the main causes of SME business failures are low management skills (Gray, 2002). Business practices basically depend on the human resource skills. Innovation and entrepreneurial activities must take into account market flows and conditions, especially in matters of corporate financial practices. Knowledge of how to manage finances properly and the risks posed by every decision is very important for the flow of funds and the business life cycle. The benchmarks of SME performance are easily identified from the profits generated, profit growth, sales growth, and payment of business obligations (Omerzel and Antončič, 2008; Soriano and Castrogiovanni, 2012).

Omerzel and Antončič, (2008) stated that knowledge and work experience on managerial and financial practice are important elements for company performance. There are significant differences in financial practices between high-performing companies and low-performing companies (Choi, 2010). High-performing companies show their financial practices more systematically with a choice of strategies in a better industrial cycle. High-performing people tend to be sensitive to changes in the industrial cycle by designing financial practices to be more flexible and competitive. So far the SME performance has been linked to factors such as managerial practice, company growth, knowledge of entrepreneurship, education, experience, customer satisfaction, market deployment, and entrepreneurial skills. Research conducted by Binks and Ennew (1996); Hudson et al. (2001); Gray (2002); Segal et al. (2005); Tambunan (2007); Omerzel and Antončič (2008); Terziovski (2010); Soriano and Castrogiovanni (2012); Ates et al. (2013); Mokhtar et al. (2014); Mason et al. (2015); Lin and Lin (2016); Amin et al. (2016); Anwar (2018) only focus on individual and managerial capabilities of SMEs beyond financial capacity, whereas, financial management capabilities are the important factors in the company's life cycle. For this reason, researchers will focus on

¹ Data taken from website of Ministry of Cooperatives and Small and Medium Enterprises of the Republic of Indonesia 2017, Data development of Small and Medium Enterprises and Large Enterprises 2012-2017. <http://www.depkop.go.id/>

financial factors including financial knowledge, risk knowledge, and financial practices that can affect SME performance.

Financial knowledge in various forms is the starting point of decision making. Financial skills and knowledge are important dimensions in corporate financial practices that are useful for financial review aspects before making financial decisions (Pak and Chatterjee, 2016). Financial performance plays an important role in playing the sustainability of a business. Business owners are required to have knowledge about their business and the ability to manage its finances. In economic crisis 1997-1998, large businesses were bankrupt. Meanwhile, SMEs are able to encourage rapid and sustainable economic growth (Tambunan, 2007). Therefore, the skills and knowledge in managing their finances are very important for SMEs to survive in the competitive era.

Financial knowledge and financial risk tolerance are important variables in corporate financial management practices for the future (Jacobs and Hershey, 2005). Financial risk tolerance focuses on financial decisions in investment and funding strategies. Financial knowledge is linked to knowledge of financial risk used to develop financial practices (Kadoya and Khan, 2017). The company leader must understand well about the finances of his/her business by mastering ratios and other approaches to analyze their business finance. It is not only the development of business sales, but financial risk considerations must also be analyzed to determine the health and sustainability of their business. Good risk knowledge will be able to improve the quality of business financial practices that can make business performance better.

There are 5 types of risks for SMEs; they are strategic risk, operational risk, financial risk, compliance risk, and environmental risk (Jenkins, 2004). Small to medium scale businesses are vulnerable to consumer pressure rather than large businesses. This is because SMEs do not directly sell their products to the public and usually do not have a trademark that is not seen by the public. The main risk of SMEs is bankruptcy. Thus, financial and operational risks are very important. Other risk weights will vary according to the culture and type of business.

In addition to financial factors, business culture can affect SME financial practices on the risks that can arise from financial decisions. Schwartz and Davis (1981) stated that the implementation of corporate culture is an important factor in determining the company's strategy to improve their performance. The corporate culture and discipline is the most accurate reflection to find out whether everything works as it does. AT & T Inc., an international company in the field of telecommunications, successfully applies its business strategy and increases its sales. It is because AT & T makes changes in its business².

Based on previous studies, it is stated that financial knowledge, risk knowledge, business culture are closely related to financial practices and business performance. Therefore, the objective of this research is to find out the impact of the variables of this study to be able to explain the phenomenon, theory and empirical findings about the effect of risk knowledge, financial knowledge, and business culture on business performance mediated by financial practices.

2. Literature Review

The dynamics of business problems are mostly felt by small and medium entrepreneurs because of the popularity of large businesses. In fact, SMEs have been recognized as being able to deliver the country's economy to prosperity. Because of its enormous contribution to the economic performance of a country, it has encouraged the government to pay great attention to the growth and SME performance. Judging from GDP, SMEs have relatively greater performance than larger

businesses (Tambunan, 2007). For companies, performance is an important aspect to measure the success of their business. To evaluate the success of various types of performance, it must be considered and associated with financial and nonfinancial objectives (Soriano and Castrogiovanni, 2012). These financial goals include profit, sales, sales growth, market share, or market share growth (Omerzel and Antončič, 2008; Soriano and Castrogiovanni, 2012). Whereas, nonfinancial goals are concerned with human capital, including knowledge, skills, and business culture in organizations (Ates et al., 2013; Bruderl et al., 1992; Omerzel and Antončič, 2008; Soriano and Castrogiovanni, 2012). In this study, researchers refer to Omerzel and Antončič (2008) research that combine financial and nonfinancial aspects in measuring the SME performance.

To obtain maximum results from business feasibility, an evaluation of company performance is important to do. Although, it may be a little difficult to assess the success or failure of SMEs adequately, because the types of data routinely available to measure business performance are not available for the SME sector (Watson, 2010). SMEs show different characteristics of large businesses, so there is a need to establish the relevance of SME performance measurement approaches that are in accordance with the design and implementation of SMEs. The measurement of SME performance is not only emphasized in the financial aspect, but also in the nonfinancial aspect (Cardy, 2004; Howell, 2006; Hudson et al., 2001). Bruderl et al. (1992) stated that the survival of organizations can be seen through their profit growth. Profit growth can be used to measure organizational performance which is important to understand the dynamics of an organization's income distribution.

The human resources in a company has an important role in the business. To make a company run well and grow quickly, human resources must have a well-knowledge of their business and a competence to manage it. Bruderl et al. (1992) and Omerzel and Antončič (2008) agree that the great investment of human capital will increase the productivity, which then lead to the great profitability. Higher productivity indicates the employees effort to maximize their skills and knowledge (Black and Lynch, 1996; Schultz, 1961). Regarding the profitability of SMEs, the owners must have knowledge of finance and know the risks after the financial decision. Financial knowledge, risk knowledge, and a good business culture can increase productivity to get maximum profits. Business productivity and profitability are a measure of company performance. The increasing performance growth shows that the owners can manage the production process efficiently or attract more customers and capital from investors (Bruderl et al., 1992).

2.1. The Relationship between Financial Practice and SME Performance

The financial practices of each company are different depending on the business type and the company's financial information needs. Like SMEs, financial practices are clearly different from the more complex business. Flexible and highly competitive are characteristics of small companies (Aoulou and Fayolle, 2005). The flexibility of SMEs causes management processes and financial practices to be unstructured. A distinctive feature of SME financial practices is more focus on internal and short-term planning (Ates et al., 2013). This causes SMEs to have obstacles in their performance practices. The obstacles are, for example, difficulties in managing concepts and communication process, and in taking a more strategic and long-term view. To achieve high performance that is sustainable and consistent, SME financial practices must also be healthy. The key success of SME performance is practice in business processes (Ates et al., 2013). High-performance companies show systematic financial practices compared to low-performing

² Howard Schwartz & Stanley M. Davis. Matching Corporate Culture and Business Strategy. Organizational Dynamics, Summer 1981. AMACOM, a division of American Management Associations.

companies (Choi, 2010).

Financial practices are associated with accounting skills. The concept of financial practice is described in the practice of working capital management, accounting information systems, practices and analysis of financial statements, financial capital structures, capital budgets, management of non-current assets (Abanis, Sunday, Burani, & Eliabu, 2013; Musah, Gakpetor, & Pomaa, 2018). Implementation of good financial practices will lead to better performance results (Karadag, 2015; Musah et al., 2018). Good financial practices can be described by complete financial accounting. The entity failure in compiling financial and well-managed accounting reports can be caused by the lack of financial accounting knowledge or skills (Madurapperuma, Thilakerathne, & Manawadu, 2016). Accounting knowledge is a major part of financial knowledge. Financial knowledge and risk knowledge are the basis of corporate financial practices (Jacobs and Hershey, 2005). SMEs that have high financial knowledge and risk knowledge can create more efficient financial practices. Thus, SME productivity will increase and it will lead to better performance of the SMEs. ²⁶

H1: Financial practices have a positive influence on the SME performance

2.2. The Relationship among Risk Knowledge, Financial Practices and SME Performance

The knowledge of SME owner is the main capital to increase productivity and profitability, which has an impact on improving the SME performance. SMEs, which are identical to personal businesses, often lack cash and have difficulties in diversifying business risks (Burns, 2016). Business risk cannot be avoided by entrepreneurs, but companies that have a lot of insight will make them recognize risks in every business decision easily and then it will be used to develop strategies to improve their business (Jenkins, 2004). It has long been known that all profit-oriented companies will continue to maximize profits that can be obtained by avoiding high-risk decisions. To find out which decisions are taken at high or low risk, the SME owner must have qualified risk knowledge. ³

Risk knowledge includes financial risk tolerance (Jacobs and Hershey, 2005) and risk perceptions (Sjöberg, 2000; Slovic, 1987). In the practice of SME finance, there are 5 types of risks, including strategic risk, operational risk, financial risk, compliance risk, and environmental risk (Jenkins, 2004). Of these five risks, the risk of bankruptcy is the threat of SME failure. Bankruptcy risk is reflected in financial and operational risks. Good risk management can reduce business pressure as a result it can increase productivity which shows better business performance. Therefore, having knowledge risks is essential for SME owners in financial practices for better SME performance.

H2: Risk Knowledge has a positive influence on the SME performance through Financial Practice

2.3. The Relationship among Financial Knowledge, Financial Practices, and SME Performance

It has been widely investigated that knowledge is the basis of decision making. Information knowledge and the ability to decipher information are needed to make decisions when financial products and services continue to grow. Financial knowledge is very important in carrying out SME financial practices. Maseko and Manyani (2011) and Amoako (2013) state that SMEs do not keep their financial records because of a lack of financial knowledge and result in inefficient use of financial information in decision making which has impacts on the deteriorating performance of SMEs.

Therefore, financial knowledge is very important for the success of SMEs. Companies will be increasingly successful

when entrepreneurs have more knowledge (Omerzel and Antončič, 2008). It is worthy for businessmen to learn and increase their insight with useful knowledge. The implications of that knowledge in business make it easy for entrepreneurs to start each phase of their business. Some SMEs have difficulty in deciding pricing strategies because SMEs do not have sufficient knowledge about the calculation of pricing and target markets (Cant and Wiid, 2013). Amin et al. (2018) stated that assets knowledge has a positive impact on the company's financial performance. When knowledge is used for the company assets management, it will maintain competitiveness which leads to superior performance in which financial practices will run systematically. Financial skills and knowledge are important dimensions in corporate financial practices (Pak and Chatterjee, 2016).

H3: Financial knowledge has a positive influence on the SME performance through Financial Practice

2.4. The Relationship among Business Culture, Financial Practices and SME Performance

Culture is a thought or custom or something that has become a habit that is difficult to change³. Culture is a reflection of habits. Just as in social life, the business world carries a culture that varies according to the nature of the entrepreneurs. Culture is inherent in one's intuition, so that the conditions of each corporation's business culture vary. An entrepreneur must understand the culture and value of the company to keep the good ones and change the wrong ones (Omerzel and Antončič, 2008). Schwartz and Davis (1981) stated that corporate culture is an important factor in determining strategies to improve company performance because culture is a reflection of the past. The performance seen from the company's financial growth can be influenced by business culture that is rooted in its financial practices. An undisciplined business culture results in a decrease in the company's financial practices and then the company's performance will deteriorate.

Schwartz and Davis (1981) mentioned that innovation, decision making, communication, type of organizational leadership, supervision, appraising and rewarding are the concept of business culture. Companies that innovate more in their products are better prepared to face their competitors (Aloulou and Fayolle, 2005), have a higher level of product marketing effectiveness (Sin and Tse, 2000), and increase company performance (Avlonitis and Salavou, 2007; Terziovski, 2010). When SMEs want a higher performance in their business, SMEs must pay attention to the ethics of business decision making (Wun, 2002). The pattern of communication and information sharing is a process of measuring company performance (Cocca and Alberti, 2010). O'Regan et al. (2005) stated that the type of company leaders influences the profitability of SMEs; those who have an independent type have high turnover and profit. Transformational leadership style has a higher influence on overall SME performance than transactional leadership (Aziz, Abdullah, Tajudin, & Mahmood, 2013). While the culture of appreciation and recognition is carried out effectively in the organization, it will improve the overall performance of the organization (Kaliannan, Abraham, & Ponnusamy, 2016). Innovative SMEs have effective decision-making strategies and by paying attention to employees, it will show good financial practices and performance.

H4: Financial knowledge has a positive influence on the SME performance through Financial Practice

3. Research Methodology

This study used primary data from questionnaires obtained by visiting SME entrepreneurs in 35 regencies/cities, Central Java, Indonesia. The population of the study was 4,210 SMEs

³ Kamus Besar Bahasa Indonesia available online in official website of KBBI in 2019, <https://kbbi.web.id/budaya>

registered at the Ministry of Industry of the Republic of Indonesia. There were 475 of 635 respondents who wanted to answer the questionnaire.

The data analysis technique of this study used a quantitative approach by using a structural model to determine the direct and indirect effects of each variable. Before analyzing the direct or indirect influence, the researcher tested the construct validity and reliability. In this research, it used convergent validity test and discriminant validity test. For the hypothesis testing, it used the t-test.

This study referred to Omerzel and Antončič (2008) research in measuring the SME performance in Central Java Province. The performance measurement indicators include average profitability of total assets, average employee growth, average sales growth, and market share of respondents. In addition, the financial practice variable indicators were in accordance with Pak and Chatterjee, (2016) research in which they consist of recording practices, payment practices, calculating cost of goods sold, and income statement. The risk knowledge indicators used in this study were in accordance with the research of Kuritzkes, Schuermann, Weiner, and Weiner, (2013). The indicators were credit risk, event risk, and business risk. Then to measure financial knowledge variables, it referred to Hogarth and Hilgert (2002) research. The indicators were knowledge of emergency funds, guarantees, and life insurance. Business culture variables were measured using indicators of innovating, decision making, communicating, organizing, monitoring, appraising and rewarding (Schwartz and Davis, 1981).

4. Findings

The results of the validity test shown in table 1 indicated that the question items were valid. In the process of data processing, some research indicators were deleted because they had a low value indicating the invalid item question. Table 2 shows all the constructs used in the study were valid and reliable. Then, based on discriminant validity test, it showed that the model used was categorized valid.

Table 4 shows that all independent variables have a direct influence on financial practice and SME performance with P-Value <0.05. Based on the data, it shows that financial know-

Item	Culture of Business	Financial Knowledge	Financial Practice	Risk Knowledge	SME's Performance
CB1	0.876				
CB3	0.799				
CB4	0.780				
CB5	0.687				
CB7	0.502				
FK1		0.910			
FK2		0.731			
FK3		0.588			
FP1			0.971		
FP2			0.717		
FP3			0.566		
FP4			0.788		
FP5			0.698		
RK1				0.939	
RK2				0.834	
RK3				0.552	
SP1					0.954
SP2					0.762
SP4					0.599
SP5					0.821
SP6					0.832

Table 1. Loading Factors of Construct

Variable	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Culture of Business	0.786	0.854	0.548
Financial Knowledge	0.606	0.794	0.569
Financial Practice	0.805	0.869	0.577
Risk Knowledge	0.703	0.829	0.627
SME's Performance	0.854	0.898	0.643

Table 2. Reliability and Convergent Validity

Variable	Culture of Business	Financial Knowledge	Financial Practice	Risk Knowledge	SME's Performance
Culture of Business	0.740				
Financial Knowledge	0.493	0.755			
Financial Practice	0.573	0.468	0.760		
Risk Knowledge	0.484	0.520	0.463	0.792	
SME's Performance	0.426	0.470	0.552	0.386	0.802

Table 3. Discriminant Validity

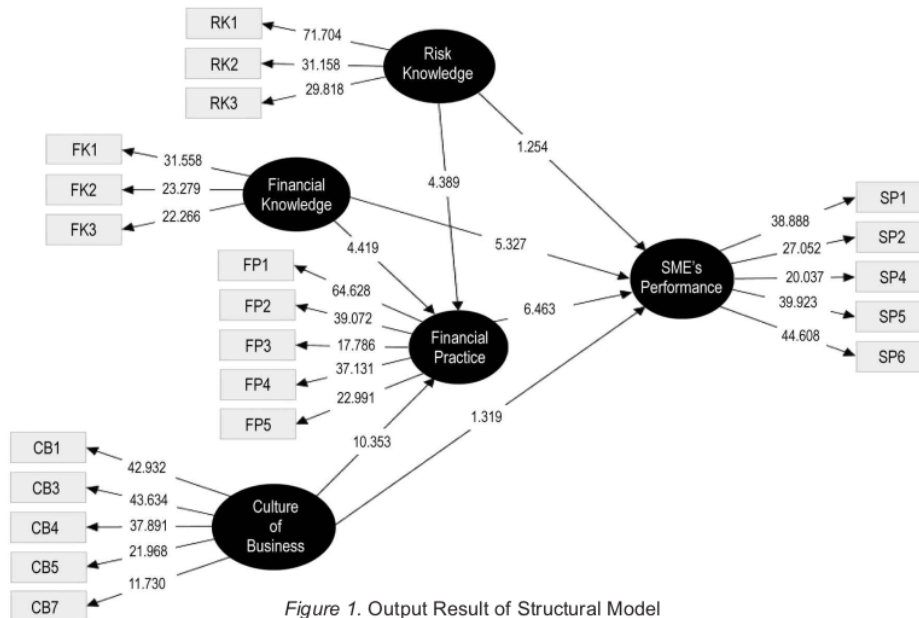


Figure 1. Output Result of Structural Model

	Original Sample	T Statistics	P Values
Financial Knowledge -> Financial Practice	0.179	4.419	0.000
Financial Knowledge -> SME's Performance	0.298	7.285	0.000
Risk Knowledge -> Financial Practice	0.177	4.389	0.000
Risk Knowledge -> SME's Performance	0.125	2.751	0.006
Culture of Business -> Financial Practice	0.399	10.353	0.000
Culture of Business -> SME's Performance	0.219	4.988	0.000
Financial Practice -> SME's Performance	0.378	6.463	0.000
R ²	0.368		
ΔR ²	0.363		

Table 4. Regression and Data Analysis
Source: primary data processed

ledge has a positive and significant effect on financial practice. Therefore, it can be concluded that high financial knowledge can improve financial practice. In addition, risk knowledge also has a significant positive effect on financial practice. Hence, SMEs need to improve their understanding of risk in order to reduce the level of loss and improve financial implementation well. Similarly, the culture of business has a positive and significant influence on financial practices. This shows that SMEs based on a good business culture are able to improve their business financial practices. The empirical findings show that the financial practice variable intervene all the independent variables with the dependent variable. Financial practices are directly related to the performance of SMEs with a significant positive influence from each independent variable, including financial knowledge, risk knowledge, and culture of business. The results of this study was obtained that the performance factors of SMEs described 36.3% by financial knowledge, risk knowledge, business culture, and financial practice.

5. Discussion

5.1. The Relationship between Financial Practices and SME Performance

The positive influence of financial practices on the performance of SMEs (H1) was accepted as indicated by the value of T-statistics 6.463. These results support that the application of finance and accounting effectively and efficiently will improve the performance of SMEs (Ates et al., 2013; Choi, 2010; Karadag, 2015; Musah et al., 2018). Financial practices are indicated by several financial applications including recording financial transactions, checking account transactions, debit cards and credit cards, calculating the production cost in determining the selling price, and accounting earnings calculation skills every month. If this is done routinely, then the accuracy of business income and business expenses will be known so that business performance looks better. The problem of SMEs since the beginning was the lack of well-managed financial accounting (Amoako, 2013; Madurapperuma et al., 2016). Financial practices are illustrated with money and accounting management skills. Skills in applying financial and accounting systems in business help entrepreneurs manage money well. By financial practice, entrepreneurs can manage their business money so that the financial flow is clearly visible. This flow will be the basis of the entrepreneurs' policy for the continuation of their business in order to achieve the desired business performance.

The results of this study showed the extent to which SMEs in Central Java Indonesia implement their finances in book-keeping and accounting. However, many of them do not book their financial transactions for several reasons, for example, difficulties, lack of knowledge, and laziness. And those who do financial documentation tend to show better performance. It can be seen from their increased turnover and market share in the last three years. Conversely, SMEs that do not implement it, show poor performance and tend not to think about the benefits. As a result, SME owners find it difficult to calculate their net

income efficiently. SMEs that carry out financial practices are more helpful to manage their funds when experiencing financial problems. As the result, the use of financial information becomes efficient and supports the measurement of SME financial performance.

5.2. Relationship among Risk Knowledge, Financial Practices and SME Performance

The positive influence of risk knowledge on the SME performance through financial practice (H2) was accepted as indicated by the value of the T-statistic of 4.389 and 2.751. Risk Knowledge had a direct effect on SME financial practices (beta value 0.177) and on financial performance (beta value 0.125). The total effect of risk knowledge on SME performance was 0.192. These empirical results showed that knowledge related to concepts and the basis of financial risk was important. It is well known that a broad interview will encourage employers to recognize risks and avoid fraud (Jenkins, 2004). Risk Knowledge will help SMEs avoid mistakes in business management (fraud) that can cause losses and pressure in the business. Various considerations are often made, especially the risks that might arise from the policy that will be implemented. The use of risk knowledge in financial practices will reduce the element of negligence to avoid waste and poor business performance. Owners who are risk literate for financial decisions will tend to be careful and try to achieve business goals by bearing a small amount of risk costs.

In line with the study of Gao et al. (2013) and Zahra et al. (2007) that the role of knowledge is most important for the development of SME risk management capabilities in risk taking. SME owners who are risk literate tend to be careful in developing business and investment. The results of this study indicate that SME owners who have a high level of risk knowledge have neat financial practices. Thus, the use of information is more effective. High risk knowledge will minimize the losses that will be experienced due to the risks taken so that it shows better quality financial performance. The characteristics of SMEs that tend not to sell their products directly to the public and often do not have trademarks make SMEs more vulnerable to business pressure. Those who know these risks tend to pay attention to their performance. In conclusion, high risk knowledge can improve the quality of SMEs' financial practices and ultimately business performance becomes more relevant and accurate.

5.3. The Relationship among Financial Knowledge, Financial Practices and SME Performance

Financial knowledge was found to have a positive influence on the SMEs performance through financial practice (H3). It is as indicated by the statistical T-values of 4.419 and 7.285. Financial knowledge has a direct effect on SME financial practices (beta value 0.179) and on financial performance (beta value 0.298). The total effect of financial knowledge on SME performance is 0.366. It has been widely discussed that financial knowledge is important in life (Hogarth and Hilgert, 2002; Howlett et al., 2008; Jacobs and Hershey, 2005; Kadoya and Khan, 2017; Omerzel and Antoncic, 2008; Robb, 2011; Stefanitsis et al., 2013). In this study the dimensions of financial knowledge include funds knowledge, guarantees, insurance policies, and contracts. An adequate financial knowledge will make SMEs easier to calculate prices and target markets. Price is a value that determines the size of the profits. The use of knowledge for better fund management can bring costs that are more in line with performance (Amin et al., 2018; Gil-bazo and Ruiz-verdu, 2009). Someone can describe information because they have the knowledge to understand it. The diligence in reading financial information can help SMEs make short-term and long-term decisions more relevant. Thus, the SMEs performance increases with good cost management.

The study showed that financial knowledge played a role in SME financial practices and their performance. The level of one's financial knowledge influences the results of the finance application. Individuals who have higher financial knowledge will be able to provide better information through efficient financial practices. Therefore, available information can be used as a basis for decision making for better performance. Owners as leaders and policy makers can use their knowledge to read and analyze their business financial statements so they do not get caught up in wrong decisions. When knowledge and behavior (financial practice) are combined, the results of our correlation showed that SMEs show a fairly good level of financial performance. We also find positive effects of the use financial information on financial practices. SME owners who regularly get information about financial problems tend to have high financial knowledge. Knowledge is utilized in applying the financial practices of its business to obtain quality performance.

5.4. The Relationship among Business Culture, Financial Practices and SME Performance

The findings of the study showed that business culture had a positive effect on the SMEs performance through financial practice with a T-statistic value of 10,353 and 4,988. Business culture had a direct effect on SME financial practices (beta value 0.399) and on financial performance (beta value 0.298). The total effect of business culture on SME performance was 0.366. Culture is inherent in one's intuition. Culture consists of attitudes, experiences, beliefs, and values. In line with Schwartz and Davis (1981) that business culture in a company is an important factor that determines the company's performance strategy. In this study, business culture consists of business habits that grow in SMEs. The business culture is a culture of innovation, culture in decision making, communication culture, organizational culture, monitoring culture, and culture of appreciation. These cultures have a positive effect on the performance of SMEs. The owner innovative and communicative habits bring motivation to continue working so that the business runs well. A conducive situation and culture allows people involved in the business to feel comfortable, and then their performance increases. Although it is well known that entrepreneurs have different business styles, positive habits will certainly bring positive results.

The findings of this study indicate that business culture had a positive and significant influence on the financial practices and SMEs performance. Innovative, proactive, and risk taking organizations can maintain consistency in management practices and organizational performance. Culture that is formed with the

owner or manager leadership style also has a positive impact on business performance. Awards and recognition given by the company to employees can also maintain the SMEs performance. In addition, the culture of individual decision making is closely related to business ethics and the SMEs performance (Aloulou and Fayolle, 2005; Aziz et al., 2013; Cocca and Alberti, 2010; Kaliannan et al., 2016; Wun, 2002). Culture is a perception. Positive perceptions brought by the owner to the workplace will be gradually understood by employees according to what they experience. Basically, culture is an aspect of acceptance. In an organization, it consists of several different backgrounds, but the culture unites them. This will lead to increased business financial practices and end up in quality performance. A well-developed business culture will affect behavior (financial practice) which will lead to business performance. Strong business culture shows high performance norms. The practice can be accepted and strengthened to support business performance.

6. Conclusion

The results showed that independent variables including risk knowledge, financial knowledge, and business culture had a positive and significant influence on financial practices and had a direct and indirect influence on the SMEs' performance. These empirical findings provide evidence that risk knowledge, financial knowledge needs to be improved by every business owner or manager to support the SMEs' performance. The practical impact in this study encourages the owners to always learn from every business activity that has an influence on the performance of their business. Business owners need to understand every risk that arises from their business, and increase financial knowledge in managing their business units. Besides that, the owners are more open to their business environment, so they can quickly make adjustments in the business development. Financial practices can help businesses from failure because every activity has been planned and can be managed properly.

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