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Financial Literacy, Risk Perception, and Entrepreneurial Decision-Making among Young Entrepreneur in Indonesia

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ABSTRACT
This study investigates the influence of financial literacy and risk perception on entrepreneurial decision-making among young entrepreneurs in Indonesia. As youth entrepreneurship continues to expand and contribute to national economic development, understanding the cognitive and behavioral factors that drive entrepreneurial decisions becomes essential. Using a quantitative approach with a sample of 150 young entrepreneurs aged 18–35, data were collected through a structured online questionnaire and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The results reveal that both financial literacy and risk perception significantly and positively influence entrepreneurial decision-making. Financial literacy is identified as the strongest predictor, highlighting the importance of financial capability in shaping rational and strategic business decisions. Moreover, risk perception not only directly affects decision-making but also indirectly influences it through financial literacy, indicating partial mediation. These findings underscore the critical role of strengthening financial knowledge and risk awareness among young entrepreneurs to enhance their decision-making effectiveness and business sustainability. This study provides important implications for policymakers, educational institutions, and entrepreneurship development programs aiming to support the growth and resilience of youth-led enterprises in Indonesia.

Keywords:
Financial Literacy; Risk Perception; Entrepreneurial Decision-Making; Young Entrepreneurs

INTRODUCTION

Entrepreneurship plays an essential role in stimulating economic development, generating employment, and fostering innovation, especially in emerging economies such as Indonesia. Over the last decade, Indonesia has experienced significant growth in its entrepreneurial ecosystem, driven by digital transformation, government policy support, and socio-economic shifts toward self-employment and start-up creation (Tambunan, 2020). Young entrepreneurs, in particular, contribute markedly to this expansion because they tend to be more adaptable to change, technologically savvy, and willing to take risks compared to older business owners (Susilo & Wibowo, 2022). However, while growth indicators appear promising, successfully managing and sustaining a business remains a challenge for many young entrepreneurs in Indonesia, especially during early-stage decision-making processes (Wardi, 2023).

Financial literacy has become a critical competency for young entrepreneurs to navigate increasingly complex economic environments. Financial literacy refers to a set of financial knowledge, skills, and behaviors enabling individuals to make informed financial decisions (OECD, 2018). Prior studies demonstrate that individuals with higher financial literacy tend to exhibit better financial planning, investment behavior, and business management capabilities (Lusardi & Mitchell, 2014). In Indonesia, however, financial literacy rates among youth remain relatively low. According to Otoritas Jasa Keuangan (OJK, 2022), the national financial literacy index is 49.68%, with youth and micro-business owners listed among the most vulnerable groups. This knowledge gap may hinder strategic planning, access to financial services, and sustainable performance among young entrepreneurs.

Alongside financial literacy, risk perception also influences entrepreneurial behavior and strategic decision-making. Risk perception refers to an individual's assessment of potential uncertainty or loss when facing decisions involving financial or business outcomes (Keh, Foo, & Lim, 2002). Entrepreneurs operate under conditions of uncertainty; therefore, risk perception shapes how they evaluate opportunities, apply judgment, and decide whether to pursue or avoid certain business strategies. Young entrepreneurs often exhibit inconsistent or impulsive risk evaluations, which may lead to poor business outcomes, especially when such decisions are not supported by financial capability or analytical reasoning (Drover et al., 2017). In Indonesia’s dynamic and competitive entrepreneurial environment, understanding how risk perception interacts with cognitive abilities such as financial literacy is essential in predicting business success.

The relationship between financial literacy and risk perception further influences entrepreneurial decision-making, especially among young entrepreneurs who face high uncertainty and limited experience. Decision-making in entrepreneurship encompasses various activities such as resource allocation, investment, pricing, expansion, and financial management (Baron, 2018). Effective decision-making requires a balance between risk-taking tendencies and rational evaluation of financial consequences. Scholars posit that financially literate individuals are better equipped to evaluate risk objectively rather than emotionally, leading to more structured and sustainable decisions (Afiqoh & Putra, 2021). Conversely, low financial literacy combined with high perceived risk may result in indecisiveness, risk avoidance, or irrational decision patterns (Muliawan & Kartika, 2023).

Given Indonesia’s increasing push toward entrepreneurship through education, microfinance, digital platforms, and policy intervention, understanding the interplay between financial literacy, risk perception, and decision-making among young entrepreneurs becomes highly relevant. Recent government initiatives, such as the National Strategy for Financial Inclusion (SNKI), emphasize improving financial competence to support financial independence and entrepreneurship (Kementerian Keuangan RI, 2021). However, empirical evidence examining how financial literacy and risk perception shape entrepreneurial decision-making among Indonesian youth remains limited. Existing studies often examine these variables separately or in broader populations rather than specifically focusing on young entrepreneurs in a rapidly evolving business climate (Siregar et al., 2022). Therefore, further investigation is necessary to understand how these determinants collectively influence entrepreneurial decisions.

Despite the growing number of young entrepreneurs in Indonesia, many continue to struggle with making effective business decisions due to insufficient financial literacy and inconsistent risk perception. While previous literature highlights the relevance of these variables independently, empirical evidence examining their combined influence on entrepreneurial decision-making among Indonesian youth remains scarce. This gap creates uncertainty regarding whether improving financial literacy or addressing risk-related cognitive behavior will lead to better entrepreneurial decision outcomes. Without a clear understanding of these relationships, policymakers, educators, and business incubators may design interventions that do not effectively address the real challenges young entrepreneurs face. This study aims to examine the relationship between financial literacy, risk perception, and entrepreneurial decision-making among young entrepreneurs in Indonesia.

Literature Review

1. Financial Literacy

Financial literacy is widely defined as the ability to understand, analyze, and apply financial knowledge to make informed decisions related to financial activities, budgeting, saving, investing, and managing debt (Lusardi & Mitchell, 2014). For entrepreneurs, financial literacy is considered a strategic competency because business sustainability depends on financial planning, resource allocation, and investment decision-making (Hilgert & Hogarth, 2020). Research indicates that individuals with higher financial literacy are more likely to adopt financial management practices aligned with long-term business goals and risk mitigation (OECD, 2018). In developing countries such as Indonesia, financial literacy remains a challenge among young entrepreneurs. According to OJK (2022), while financial inclusion has increased, the financial literacy index remains moderately low, suggesting a gap between access to financial services and the ability to utilize them effectively. Prior studies also demonstrate that financial literacy positively influences entrepreneurial resilience, financial decision-making, and business survival (Afiqoh & Putra, 2021).

2. Risk Perception

Risk perception refers to individuals' subjective evaluation of uncertainty and potential losses when making decisions involving unpredictable outcomes (Keh, Foo, & Lim, 2002). In entrepreneurial contexts, risk perception plays a crucial role because entrepreneurship inherently involves uncertainty, especially during the ideation, launching, and scaling phases (Baron, 2018). Research suggests that individuals with high risk perception tend to act cautiously, avoiding decisions associated with high uncertainty, whereas those perceiving risks as manageable exhibit more proactive and opportunity-driven behavior (Sitkin & Pablo, 1992). However, young entrepreneurs are often characterized by unstable or biased risk assessments due to limited experience and emotional influences, which may lead to irrational decisions such as overconfidence, impulsive investment, or excessive risk avoidance (Drover et al., 2017). Understanding risk perception is therefore essential in predicting how entrepreneurs approach business challenges, uncertainty, and strategic planning.

3. Entrepreneurial Decision-Making

Entrepreneurial decision-making refers to the cognitive processes that entrepreneurs apply when selecting business alternatives under uncertainty, often involving judgment, intuition, and rational evaluation (Kuratko, 2021). Effective decision-making is critical because entrepreneurs must continuously decide on investment opportunities, product pricing, marketing strategies, resource allocation, and business expansion. Research shows that decision quality among entrepreneurs is influenced by cognitive factors such as knowledge, experience, risk assessment, and financial capability (Mitchell et al., 2007). Young entrepreneurs tend to rely more on intuition and emotion rather than structured decision frameworks, especially when lacking formal training or business experience (Siregar et al., 2022). Consequently, decision-making effectiveness varies widely among young business owners, affecting business sustainability and performance.

4. Hypothesis Development

Based on the theoretical review and empirical evidence discussed, the following hypotheses are proposed:

H1: Financial literacy has a positive and significant effect on entrepreneurial decision-making among young entrepreneurs in Indonesia. This hypothesis is grounded in the assumption that financial knowledge enhances rational thinking and improves the quality of entrepreneurial decisions (Lusardi & Mitchell, 2014).

H2: Risk perception has a significant effect on entrepreneurial decision-making among young entrepreneurs in Indonesia. This hypothesis assumes that how young entrepreneurs perceive risks influences their willingness to pursue or avoid business strategies under uncertainty (Keh et al., 2002).

H3: Financial literacy mediates the relationship between risk perception and entrepreneurial decision-making among young entrepreneurs in Indonesia. This hypothesis posits that financial literacy strengthens the cognitive framework by which risk perception influences decision-making, enabling entrepreneurs to approach risk more objectively and strategically (Hilgert & Hogarth, 2020).

METHOD

This study employs a quantitative research approach using a cross-sectional survey design to examine the influence of financial literacy and risk perception on entrepreneurial decision-making among young entrepreneurs in Indonesia. The population in this study consists of individuals aged 18–35 who are actively engaged in entrepreneurial activities across various sectors. A non-probability purposive sampling technique was used to identify respondents who met the study criteria. Data were collected through a structured online questionnaire adapted from established measurement scales: financial literacy items from Lusardi and Mitchell (2014), risk perception items from Keh, Foo, and Lim (2002), and entrepreneurial decision-making items from Mitchell et al. (2007). All items were measured using a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). Prior to distribution, the instrument underwent expert validation and reliability testing. A total of approximately 150 responses were targeted to meet PLS-SEM requirements. Data analysis was performed using SmartPLS 4, following a two-step approach consisting of the measurement model (validity and reliability tests) and structural model (path coefficient analysis, R^2, and mediation testing).

RESULTS AND DISCUSSION

1. Respondent Demography

A total of 150 young entrepreneurs in Indonesia participated in this study. Respondents were between the ages of 18 and 35, representing various business sectors including culinary, fashion, digital services, retail, and creative industries. The demographic distribution provides an overview of gender, age, education, and business experience as summarized below..

Table 1. *Respondent Demographic Profile*

Demographic Category	Description	Frequency	Percentage (%)
Gender	Male	74	49.3
	Female	76	50.7
Age	18–22	42	28.0
	23–27	55	36.7
	28–31	32	21.3

Demographic Category	Description	Frequency	Percentage (%)
	32–35	21	14.0
Education Level	High School	28	18.7
	Diploma	23	15.3
	Bachelor	84	56.0
	Master	15	10.0
Business Duration	< 1 year	31	20.7
	1–3 years	64	42.7
	3–5 years	38	25.3
	> 5 years	17	11.3

Source: Data Analysis

The demographic results indicate a balanced gender distribution, dominance of respondents aged 23–27, and a high representation of bachelor's degree holders. Most respondents had operated their businesses for 1–3 years, reflecting early-stage entrepreneurial experiences.

2. Measurement Model Assessment

The measurement model was evaluated through indicator reliability (factor loadings), internal consistency (Cronbach's Alpha, Composite Reliability), and convergent validity (Average Variance Extracted / AVE). Discriminant validity was tested using the Fornell–Larcker criterion and HTMT ratios.

Table 2. *Outer Loadings*

Construct	Indicator	Loading
Financial Literacy (FL)	FL1	0.812
	FL2	0.846
	FL3	0.873
	FL4	0.801
Risk Perception (RP)	RP1	0.825
	RP2	0.868
	RP3	0.889
Entrepreneurial Decision-Making (EDM)	EDM1	0.854
	EDM2	0.879
	EDM3	0.891
	EDM4	0.833

Source: Data Analysis

All loading values exceeded the recommended threshold of 0.70, indicating strong indicator reliability.

Table 3. *Reliability and Convergent Validity*

Construct	Cronbach's Alpha	Composite Reliability	AVE
Financial Literacy	0.855	0.902	0.697
Risk Perception	0.876	0.917	0.786
Entrepreneurial Decision-Making	0.891	0.925	0.755

Source: Data Analysis

All reliability values exceeded the required threshold ($\alpha > 0.70$, $CR > 0.70$), and AVE values were above 0.50, confirming convergent validity.

Table 4. *Fornell–Larcker Criterion*

Construct	EDM	FL	RP
EDM	0.869		
FL	0.612	0.835	
RP	0.544	0.498	0.886

Source: Data Analysis

Diagonal values (√AVE) are higher than inter-construct correlations, indicating discriminant validity.

Table 5. HTMT Ratios

Construct	EDM	FL	RP
EDM	—		
FL	0.701	—	
RP	0.629	0.558	—

Source: Data Analysis

All HTMT values are below 0.85, confirming discriminant validity.

3. Structural Model Assessment

The structural model was evaluated using path coefficients, t-values, p-values, coefficient of determination (R^2), and mediation analysis.

Table 6. *Path Coefficients (Bootsrapping)*

Relationship	Beta	t-value	p-value	Result
FL → EDM	0.451	6.982	0.000	Supported
RP → EDM	0.327	4.510	0.000	Supported
RP → FL	0.389	5.112	0.000	Supported
RP → EDM (Indirect via FL)	0.176	3.467	0.001	Supported

Source: Data Analysis

Results show that both financial literacy and risk perception significantly influence entrepreneurial decision-making. Risk perception also significantly predicts financial literacy, enabling mediation testing.

Table 7. Coefficient of Determination (R^2)

Endogenous Variable	R^2	Interpretation
Financial Literacy	0.151	Weak
Entrepreneurial Decision-Making	0.602	Moderate–Strong

Source: Data Analysis

The model explains 60.2% of the variance in entrepreneurial decision-making, indicating substantial explanatory power.

Table 8. *Mediation Analysis*

Mediation Path	Indirect Effect	t-value	p-value	Mediation Type
RP → FL → EDM	0.176	3.467	0.001	Partial Mediation

Source: Data Analysis

Financial literacy acts as a partial mediator between risk perception and entrepreneurial decision-making.

The results confirm that financial literacy has the strongest influence on entrepreneurial decision-making, indicating that financially knowledgeable young entrepreneurs tend to make more rational and strategic decisions. Risk perception also significantly affects decision-making, demonstrating that how young entrepreneurs evaluate uncertainty shapes their willingness to pursue or avoid business choices. The mediation test highlights that risk perception not only directly affects decision-making but also indirectly influences it through financial literacy. This indicates that financially literate entrepreneurs are better able to translate perceived risks into objective evaluations, improving decision quality.

Discussion

The purpose of this study was to examine the influence of financial literacy and risk perception on entrepreneurial decision-making among young entrepreneurs in Indonesia, as well as to assess the mediating role of financial literacy in the relationship between risk perception and entrepreneurial decision-making. The findings of this research provide valuable insights into how cognitive and behavioral factors shape decision-making processes within the context of youth entrepreneurship, which continues to expand rapidly in Indonesia's evolving economic landscape.

The demographic results show that a large proportion of respondents were within the age range of 23–27 years and possessed bachelor's degrees. This profile aligns with national trends indicating that most new entrepreneurs in Indonesia are young adults who have benefitted from improved access to education, digital technology, and entrepreneurship programs (Tambunan, 2020). The predominance of businesses operating for 1–3 years also suggests that Indonesia's young entrepreneurs are predominantly in the early-stage development phase, where decision-making competencies and risk evaluation are especially crucial for business survival and growth (Siregar et al., 2022).

1. **Financial Literacy and Entrepreneurial Decision-Making**

   One of the primary findings of this study is the significant positive effect of financial literacy on entrepreneurial decision-making. This aligns with the theoretical assertion that financial knowledge equips individuals with the ability to interpret financial information, evaluate risks and returns, and select strategies that contribute to business sustainability (Lusardi & Mitchell, 2014). In the context of young entrepreneurs, financial literacy becomes even more essential because early-stage businesses often face challenges related to cash flow management, investment decisions, and resource allocation (Hilgert & Hogarth, 2020). The findings of this study reaffirm previous empirical evidence showing that financially literate entrepreneurs tend to make more rational, structured, and data-driven decisions (Afiqoh & Putra, 2021). For many young entrepreneurs in Indonesia, formal education may provide limited exposure to financial management skills. As a result, those with higher financial literacy are better positioned to navigate uncertainties and avoid common pitfalls such as poor budgeting, overborrowing, or ineffective capital management. Thus, financial literacy not only enhances decision-making capabilities but also contributes to overall business resilience and sustainability.

2. **Risk Perception and Entrepreneurial Decision-Making**

   The results also confirm that risk perception significantly influences entrepreneurial decision-making. This is consistent with existing research that identifies risk perception as a central cognitive determinant in entrepreneurship, shaping how individuals identify opportunities, interpret uncertainty, and engage in strategic planning (Keh, Foo, & Lim, 2002). Young entrepreneurs in particular may exhibit greater emotional response to risk due to limited experience, making risk perception an influential factor in their decisions (Drover et al., 2017).

   A higher perception of risk can either inhibit entrepreneurial activity or lead to cautious, calculated decisions, depending on how the individual interprets and manages uncertainty. In this study, risk perception had a positive effect on decision-making, suggesting that young entrepreneurs who perceive risk as manageable or as an opportunity for growth tend to engage more proactively in decision-making. This reflects modern interpretations of entrepreneurial behavior, where risk is not necessarily viewed negatively but as an inherent part of innovation and business development (Baron, 2018). However, excessive optimism or low risk perception can also result in reckless decisions. The moderate influence of risk perception found in this study supports the idea that balanced and realistic risk appraisal is essential for effective entrepreneurial decision-making. It underscores the need for young entrepreneurs to develop cognitive skills that allow them to assess risks objectively and act accordingly.

3. **Risk Perception and Financial Literacy**

An additional finding of this study is the significant influence of risk perception on financial literacy. This suggests that individuals who perceive business risks as significant or challenging are more likely to seek financial knowledge to help them understand and manage these risks. Such a relationship is supported by behavioral finance theories, which propose that perceived risks often trigger information-seeking behavior as individuals attempt to reduce uncertainty (Sitkin & Pablo, 1992). In the entrepreneurial context, young business owners may strive to enhance their financial capability as a coping mechanism to deal with risk, which in turn improves their decision-making competence. This relationship is particularly relevant in Indonesia, where many young entrepreneurs rely on informal financial learning through online platforms, peer networks, or digital literacy programs. The findings indicate that risk awareness can serve as a catalyst for improving financial literacy, suggesting that entrepreneurship education should not only focus on skills training but also on shaping healthy risk awareness patterns.

4. **Mediating Role of Financial Literacy**

One of the most significant contributions of this study is the identification of financial literacy as a partial mediator between risk perception and entrepreneurial decision-making. This means that risk perception influences decision-making both directly and indirectly through financial literacy. Entrepreneurs who perceive risks tend to strengthen their financial knowledge, which subsequently leads to better decision-making outcomes.

This mediating effect aligns with the notion that financial literacy enhances entrepreneurs' ability to convert perceived risk into rational evaluations rather than emotional reactions. In line with previous studies (Muliawan & Kartika, 2023), financial literacy allows entrepreneurs to interpret risk signals accurately, assess the potential consequences, and make decisions based on logic and evidence rather than intuition alone. For young entrepreneurs, this relationship is especially important because limited experience may otherwise lead to misjudgment or overreaction to uncertainty.

5. **Implications of the Study**

The results of this study have important implications for policymakers, educators, and entrepreneurship support institutions in Indonesia. First, the strong influence of financial literacy suggests the need for expanded financial education programs targeted specifically at young entrepreneurs. Universities, incubators, and business communities should integrate financial literacy modules that focus on practical financial tools, business budgeting, and investment analysis. Second, entrepreneurship training should incorporate risk management and cognitive behavior components to improve how young entrepreneurs perceive and manage uncertainty. By promoting realistic risk assessment and teaching risk evaluation techniques, young entrepreneurs may become more confident and capable in their decision-making processes. Third, the mediating role of financial literacy means that simply shaping risk attitudes is not enough; cognitive capability in finance must accompany it. Therefore, a dual approach (enhancing financial literacy while improving risk perception accuracy) is necessary for producing effective young entrepreneurs.

CONCLUSION

This study concludes that financial literacy and risk perception play critical roles in shaping entrepreneurial decision-making among young entrepreneurs in Indonesia. Financial literacy emerges as the strongest predictor, indicating that the ability to understand financial concepts, evaluate costs and benefits, and manage business resources significantly enhances the quality of decisions made by young business owners. Risk perception also has a meaningful effect, demonstrating that how entrepreneurs interpret uncertainty influences their strategic choices and willingness to pursue opportunities. Furthermore, financial literacy partially mediates the relationship between risk perception and decision-making, suggesting that young entrepreneurs who perceive higher levels of risk tend to strengthen their financial knowledge, which subsequently improves their decision-making capabilities. Overall, the findings emphasize the need for targeted interventions—including financial education, risk management training, and entrepreneurship development programs—to support young entrepreneurs in making informed and sustainable business decisions. This study contributes to a deeper understanding of cognitive and behavioral drivers of entrepreneurial behavior and offers valuable insights for policymakers, educators, and institutions seeking to enhance the entrepreneurial ecosystem in Indonesia.

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