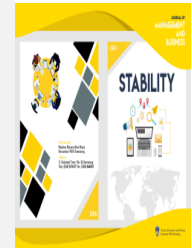




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HOW DOES FINANCIAL LITERACY IMPROVE SUSTAINABILITY BUSINESS IN BATIK SMEs?

Ahmad Idris¹, Miftahul Munir², Muhammad Amjed Iqbal³

Universitas Islam Kadiri, Kediri, Indonesia^{1,2}, University of Agriculture Faisalabad, Punjab, Pakistan³

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Abstract

The business sustainability of the batik SMEs is a hot topic for research, considering that the batik industry has a historical and cultural background. This study aims to create a theoretical model of business sustainability that is influenced by financial literacy and is mediated by intellectual capital and risk attitudes. The research location was in Kediri, East Java province, with 36 respondents taken by simple random sampling. Data was taken using a questionnaire using a Likert scale. Data analysis uses the SEM structural equation with the SmartPLS application. The results showed that financial literacy had a positive and significant effect on business sustainability, financial literacy had a positive and significant effect on intellectual capital, and financial literacy had a positive and significant effect on risk attitude. Intellectual capital had a positive and significant effect on business sustainability. However, the risk attitude variable does not affect business sustainability. Then the effect of financial literacy on business sustainability mediated by intellectual capital has positive and significant results. Meanwhile, the influence of financial literacy on business sustainability mediated by risk attitude obtained insignificant results.

¹Correspondence Address : Universitas Islam Kadiri, Kediri, Indonesia

Institution Address: Jl. Sersan Suharmaji No.38, Manisrenggo, Kec. Kota, Kota Kediri,

Jawa Timur 64128

E-mail: ahmad.idris22@gmail.com

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INTRODUCTION

Creative industries have sprung up a lot because they are the newest economic concept that promotes creativity and information (Srikalimah et al. 2020). Likewise, Kediri has a creative industry, especially the batik industry (Mujiono 2015). One among the batik locations in the province of East Java is Kediri (Widiatmoko et al. 2022). Kediri has a batik textile art with a distinctive character that differs from batik in other regions. Several batik motifs from the city of Kediri, such as SLG batik, Bolleches batik, Garuda Muka batik, Garuda Muka Sekar Jagad batik, Jaranan batik.

The batik industry is heavily influenced by its history and culture (Sari, Wulandari, and Maya 2019). In 2020 the city of Kediri experienced the Covid-19 pandemic, which affected the condition of the creative industries, including the batik creative industry. For the batik creative industry in Kediri to rise quickly, it is necessary to study a theoretical model for the sustainability of the business.

The integration of social, economic, and environmental concepts into company models is known as business sustainability (Hernita et al. 2021). Even though business sustainability is closely related to companies, business sustainability can also be applied to creative industries. A business will do well when it can create value, both from a financial perspective, such as profit and a non-financial perspective, such as the environment and social responsibility.

Business sustainability refers to a company's ability to carry on as usual (Cagnin et al., 2013; Ciceri et al., 2010). The sustainability of the batik creative industry business is influenced by the financial capital it has in order to survive and avoid business closures (Nurohman, Kusuma, and Narulitasari 2021). One of the steps to obtaining financial capital is financial inclusion in the form of easy access to funding to help creative industries survive.

According to a 2019 Financial Services Authority poll in Indonesia, the country's population only has a low degree of financial literacy, with a score of 38.03% (OJK 2019). Even more so with financial literacy for the creative industry (Wahyono and Hutahayan 2021). One that supports the sustainability of creative industry businesses is financial literacy (Nurohman et al. 2021). The creative industry initially developed but, over time, has been unable to survive due to needing to manage finances properly.

Financial literacy is a crucial skill that participants in the creative industries need to possess (Pardiman et al. 2022). Financial literacy combines knowledge, attitudes and behaviours in financial decisions (Noctor et al., 1992; Atkinson & Messy, 2012). Financial literacy helps creative industry players make better financial decisions regarding sources of financing and capital structure for their businesses (Citradika, Atahau, and Satrio 2019). It is thought that financial literacy helps keep businesses sustainable.

Along with financial literacy, creative sectors also require intellectual capital. (Ying et al., 2019; Khan et al., 2021). Resource Based View (RBV) theory states that unique, rare, and unchanging resources enable businesses to achieve business sustainability (Barney 1991). Intellectual capital is knowledge, information, intellectual property and experience that can be used to create value for a business (Stewart 1997).

Intellectual capital is one of the keys to business sustainability. Intellectual capital is an intangible resource that can realize the sustainability of creative industry businesses. Intellectual capital that is well-managed can increase business sustainability. It has become a general discussion that creative industries face limited resources, including intellectual ones.

Apart from intellectual capital, which is believed to be able to maintain business sustainability, what is no less important is the risk attitude possessed by creative industry players (Redha et al. 2021). A weak risk attitude makes it difficult for creative industries to adjust to environmental changes that are so fast and uncertain (Hanggraeni 2021).

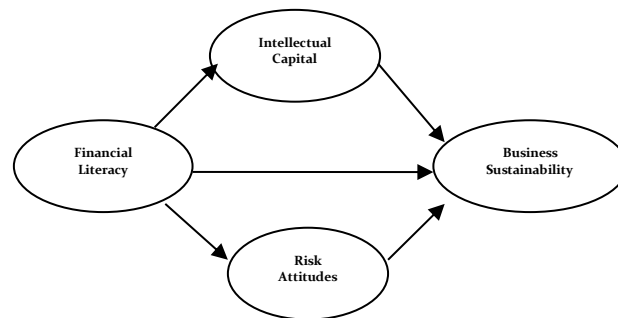
Risk attitude is a preferred response to the perception of uncertainty (Hillson and Murray-Webster 2007). However, the attitude of risk requires a long time to be implemented in the creative industry. Often interpreting risk attitudes is only a perception to comply with existing legal or statutory regulations. Even though the attitude of risk is broader than that meaning. Awareness regarding risk attitudes still needs to be increased in the creative industries.

The novelty of this research is that research on the sustainability of creative industry businesses from a financial literacy point of view is believed to need still to facilitate credible results. This research contributes ideas for the renewal of financial literacy regarding the sustainability of the batik creative industry business.

This study aims to provide a theoretical model as a step to solving problems faced by the batik industry in the city of Kediri. So that the creative batik industry can develop and be sustainable; for those involved in the creative batik industry, this is input on managing the finances of the batik industry well with a high awareness that making the right decisions will make their business survive and even develop amidst the rapid and unpredictable flow of change. Stakeholders, such as the government or the campus world, are input for policy making to restore the creative batik industry in Kediri.

This study presents a research model regarding "The Influence of Financial Literacy on the Business Sustainability of the Batik Industry Mediated by Intellectual Capital and Risk Attitudes".

Figure 1. Research Model



The hypothesis is interpreted as a temporary allegation made by researchers, which must still be proven empirically. The formulation of the hypothesis studied in this study is as follows:

- H1:** Financial literacy affects business sustainability.
- H2:** Financial literacy affects intellectual capital.
- H3:** Financial literacy affects risk attitudes.
- H4:** Intellectual capital affects business sustainability.
- H5:** There is an influence of risk attitudes on business sustainability.
- H6:** Financial literacy affects business sustainability and is mediated by intellectual capital.
- H7:** Financial literacy affects business sustainability and is mediated by risk attitudes.

METHOD

This study uses a quantitative approach based on positivism, namely a research method based on the assumption that a symptom can be classified and that the relationship between symptoms is causal. The research strategy used was a survey with a questionnaire to obtain data about opinions, characteristics, behaviour, and relationship variables and to test several hypotheses.

The research was carried out from March 2023 to June 2023 at the centre of the creative batik industry in Kediri. The population is a generalized area consisting of objects/subjects with specific qualities and characteristics determined by the researcher to be studied, and conclusions are drawn. The sample is part of the number and characteristics of the population. While the sampling technique uses probability sampling, meaning that it provides equal opportunities for members of the population to be sampled.

The sampling technique used is simple random sampling, which is a sampling technique in which all members of the population have been included in the master list, and the subjects are randomly selected from the master list. The researcher determined that the sample from the sub-districts in the city of Kediri consisted of 3 (three) sub-districts, namely the Mojoroto sub-district, the Kota sub-district, and the Islamic Boarding School sub-district. The population used in this study were 43 (forty-three) creative batik industries in Kediri.

The type of data used in this research is primary data. Primary data is data collected by researchers directly from the first source. Data collection in this study used a questionnaire (questionnaire), a data collection technique that gives respondents a set of questions or written statements to answer. This study uses a questionnaire because it is suitable for many respondents and is spread over a large area.

Table 1. Variable Operational Definitions

	Indicators	References
Financial Literacy (FL)		
FL1	Separation of assets, liabilities, income and expenses between personal and business.	(Adomako & Danso, 2014; Sohilauw & Nohong, 2020)
FL2	Using a simple financial reporting program like Excel.	
FL3	Record every transaction.	
FL4	Make financial reports periodically.	
FL5	Financial reports are true and accurate.	
FL6	Financial reports are helpful in decision-making.	

Business Sustainability (BS)		
BS1	Able to create new jobs.	(Cagnin et al., 2013; Patma et al., 2021)
BS2	Maintain environmental sustainability.	
BS3	Able to develop culture and local wisdom.	
BS4	Able to harmonize economic, environmental and social activities.	
BS5	Generate profits and business growth.	
BS6	Have institutional.	
Intellectual Capital (IC)		
IC1	Have competence in their field.	(Khan et al., 2021; Ying et al., 2019)
IC2	Have loyalty and attitude.	
IC3	Have the ability to communicate and extensive knowledge.	
IC4	Have a good relationship with customers, partners and government.	
Risk Attitude (RA)		
RA1	Set aside a portion of business income just in case.	(Redha et al., 2021; Pratono, 2018)
RA2	Develop standard safe work procedures.	
RA3	Comply with government regulations and applicable laws.	
RA4	Know about insurance.	
RA5	Cooperation with other parties in terms of availability of raw materials.	
RA6	I am not delaying the payment of a debt to the bank.	

Source: authors (2023)

RESULTS AND DISCUSSION

Respondent Characteristics

Based on the distribution of the questionnaire directly to the creative batik industry business actors in the city of Kediri, 36 samples can be obtained. Demographically the respondent data is presented in Table 2 below, which will show if the majority of respondents are aged 31 to 40 years, female, with last education high school, length of business less than five years, number of employees 1 to 4 people, and sale less than 100,000,000 IDR per year.

Table 2. Descriptive Characteristics of Respondents

	Descriptive	Total	%
Age	20-30 age	10	27,8
	31-40 age	22	61,1
	> 40 age	4	0,11
Gender	Male	14	38,9
	Female	22	61,1
Last Education	High School	31	86,1
	Higher Education	5	13,9

District	Mojoroto	16	44,4
	Kota	15	42,9
	Pesantren	5	12,7
Length of Business	< 5 years	22	61,1
	5-10 years	4	11,1
	>10 years	10	27,8
Number of Employees	1-4 people	25	69,4
	5-19 people	10	27,7
	> 20 people	1	2,9
Sale	< 100.000.000 IDR	25	69,4
	100.000.000-300.000.000 IDR	11	30,6

Source: processed data (2023)

Data analysis in PLS is divided into 2, namely, Structural Model Analysis (Outer Model) which explains the validity and reliability of the relationship between indicators and variables. Analysis of the Equation Model (Inner Model), which explains the correlation between variables (hypothesis).

Structural Model Analysis (Outer Model)

In the structural model analysis, the strength of the indicator's reflective relationship with the variables is measured by the validity and reliability of the indicators. The validity of a construct can be measured through 2 tests, namely convergent validity and discriminant validity. In order to be able to analyze the convergent validity test, the reference is the loading factor value of each variable which will describe the correlation of indicators in forming the variable. This value is ideal if the conditions are met, which must be > 0.6 (Fornell & Larcker, 1981; Hair et al., 2014).

Meanwhile, the benchmark is the root of AVE (\sqrt{AVE}) to analyze the discriminant validity test. The instrument is declared valid if the correlation value is > 0.6 . Thus the model has sufficient discriminant validity and meets the criteria (Fornell & Larcker, 1981; Hair et al., 2014). In summary, convergent and discriminant validity will be presented in the following table.

Table 3. Convergent and Discriminant Validity of Indicators

Indicators	Loading Factor	\sqrt{AVE}
Financial Literacy (FL)		
FL1	0,800	0,830
FL3	0,904	
FL4	0,741	

FL5	0,846	
FL6	0,849	
Business Sustainability (BS)		
BS1	0,841	
BS3	0,915	0,911
BS4	0,923	
BS6	0,963	
Intellectual Capital (IC)		
IC1	0,962	0,890
IC4	0,811	
Risk Attitude (RA)		
RA1	0,909	
RA3	0,862	0,886
RA4	0,890	
RA6	0,883	

Source: processed data (2023)

While the reliability of a construct can be measured by two tests, namely the Composite Reliability test and Cronbach's alpha, in principle, the value of the two tests, whether it is the Composite Reliability value or the Cronbach's alpha value, meets the requirements if the value is > 0.7 (Fornell & Larcker, 1981; Hair et al., 2014). So, according to the table below, the four variables are reliable.

Table 4. Construct Reliability and Validity

Variable	Cronbach's Alpha	Composite Reliability
Financial Literacy (FL)	0,887	0,917
Business Sustainability (BS)	0,931	0,951
Intellectual Capital (IC)	0,766	0,883
Risk Attitude (RA)	0,909	0,936

Source: processed data (2023)

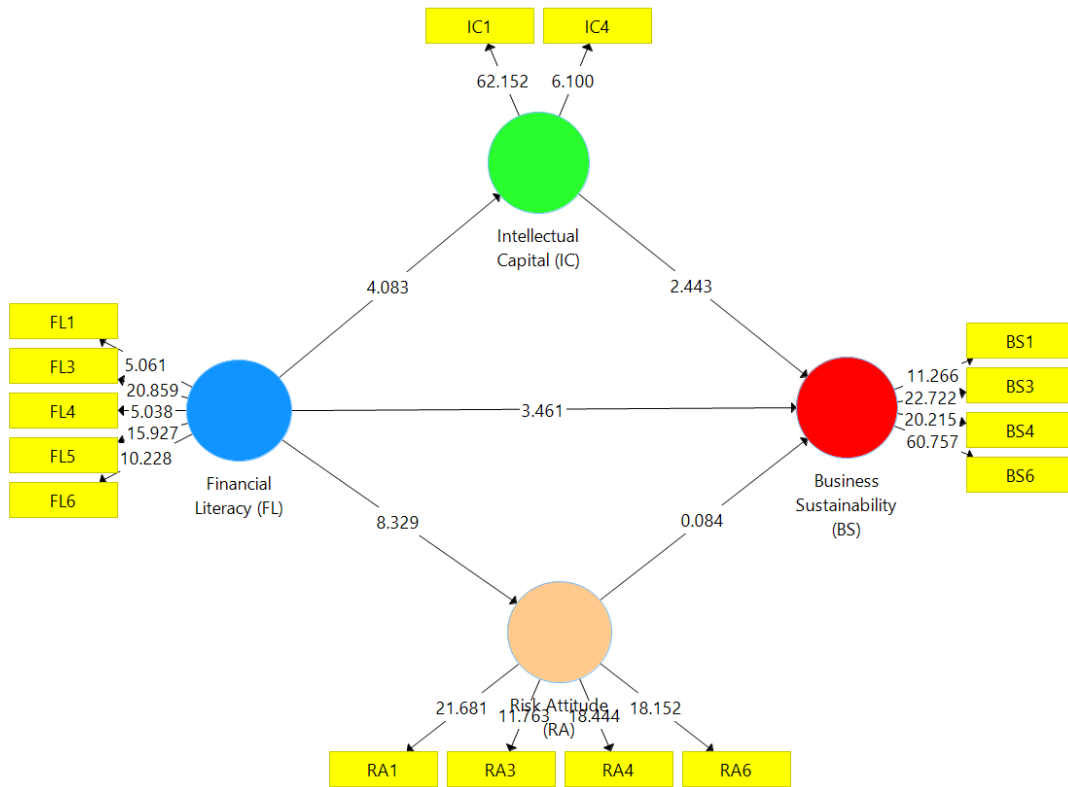
Equation Model Analysis (Inner Model)

Hypothesis testing with SmartPLS 3.2 was carried out by looking at the size of the structural path coefficient and the stability of the estimation, which was evaluated using the t-test with the bootstrapping method shown in the image below.

The results of the H1 test show that the correlation between the Financial Literacy variable and the Kediri City Batik Creative Industry Business Sustainability has a path coefficient value of 0.635 with a t value of $3,461 > 1,98$ which shows that the direction of the correlation between Financial Literacy on Business Sustainability is positive and significant because the t value count $>$ t table. The higher the financial literacy of the batik

creative industry players, the higher the chances of business sustainability. This follows the first hypothesis so that H1 is accepted.

Figure 2. Bootstrapping



Source: processed data (2023)

Table 5. Hypothesis Test Results

Variables correlations	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Result of Hypothesis path
Financial Literacy (FL) -> Business Sustainability (BS)	0,635	0,660	0,184	3,461	0,001	Accepted
Financial Literacy (FL) -> Intellectual Capital (IC)	0,581	0,616	0,142	4,083	0,000	Accepted
Financial Literacy (FL) -> Risk Attitude (RA)	0,781	0,776	0,094	8,329	0,000	Accepted
Intellectual Capital (IC) -> Business Sustainability (BS)	0,403	0,378	0,165	2,443	0,015	Accepted
Risk Attitude (RA) -> Business Sustainability (BS)	-0,009	-0,016	0,105	0,084	0,933	Rejected

Source: processed data (2023)

The results of the H2 test show that the correlation between Financial Literacy and Intellectual Capital in the Kediri batik creative industry gets a path coefficient value of

0.581 with a t value of $4,083 > 1,98$ which shows that the direction of the correlation between Financial Literacy and Intellectual Capital is positive and significant because the value t count $>$ t table. The higher the financial literacy of creative industry players, the higher their intellectual capital. This follows the second hypothesis, so H2 is accepted.

The results of the H3 test show that the correlation between the Financial Literacy variable and the Risk Attitude of the Kediri batik creative industry players gets a path coefficient value of 0,781 with a t value of $8,329 > 1,98$ which shows that the direction of the correlation between Financial Literacy and Risk Attitude is positive and significant because statistical t value is greater than t table. The higher the financial literacy of the Kediri batik creative industry players, the higher their Risk Attitude. This follows the third hypothesis so that H3 is accepted.

The results of the H4 test show that the correlation between the Intellectual Capital variable and the Business Sustainability of the Kediri batik creative industry has a path coefficient value of 0.403 with a t value of $2,443 > 1,98$ which shows that the direction of the correlation between intellectual capital and Business Sustainability is positive and significant because the value t count $>$ t table. The higher the intellectual capital owned by the Kediri batik creative industry players, the stronger the business sustainability. This follows the hypothesis, so H4 is declared accepted.

The results of the H5 test show that the correlation between the risk attitude variable and the business sustainability of the Kediri batik creative industry has a path coefficient value of -0.009 with a t value of $0,084 < 1,98$ which shows that the direction of the correlation between risk attitudes and business sustainability is negative and not significant. Because the value of t count $<$ t table. This does not follow the fifth hypothesis, so H5 is rejected.

Table 6. Mediation Test Results

Variables corelations	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Result of Hypothesis path
Financial Literacy (FL) -> Intellectual Capital (IC) -> Business Sustainability (BS)	0,234	0,228	0,115	2,034	0,043	Accepted
Financial Literacy (FL) -> Risk Attitude (RA) -> Business Sustainability (BS)	-0,007	-0,012	0,087	0,079	0,937	Rejected

Source: processed data (2023)

The results of the H6 test show that the correlation between the Financial Literacy variable and the Business Sustainability of the Kediri batik creative industry is mediated by the Intellectual Capital variable obtaining a path coefficient value of 0,234 with a t value of 2,034 > 1,98, which shows that Intellectual Capital mediates the direction of the correlation between Financial Literacy and Business Sustainability is positive and significant because the t count > t table. This proves that the Intellectual Capital variable successfully mediates Financial Literacy's effect on Business Sustainability. This follows the sixth hypothesis, so H6 is declared accepted.

The results of the H7 test show that the correlation between the Financial Literacy variable and Business Sustainability is mediated by the Risk Attitude of the Kediri batik creative industry business actors obtaining a path coefficient value of -0.007 with a t value of 0,079 < 1.98 which shows that the direction of the correlation between Financial Literacy and Business Sustainability which is mediated by risk attitudes is negative and not significant because the value of t count < t table. This indicates that the risk attitude variable has yet to succeed in mediating the effect of financial literacy on business sustainability. This is not following the seventh hypothesis, so H7 is declared rejected.

DISCUSSION

The Effect of Financial Literacy on Business Sustainability

The largest employers of workers in Indonesia's informal economy, batik SMEs play a significant influence in the country's economic system. The growth of the informal sector (SMEs), which will have an effect on raising the income level of the middle class, is what Cole et al., (2011) claim is the fastest way to drive the economy in emerging nations. In this situation, SMEs with strong financial literacy will be better equipped to meet their corporate objectives, focus on business development, and endure challenging economic times.

Business sustainability in SMEs can be determined by how well a company innovates, manages its staff and clients, and recoups its initial investment. This demonstrates that the business has a development-oriented mindset and continuously looks for innovative ideas (Hudson, Smart, and Bourne 2001). To effectively manage finances, including budgeting, bookkeeping, paying bills and utilities, obtaining and

repaying loans, and other financial decisions, financial literacy is required (Adomako and Danso 2014).

With good financial literacy, entrepreneurs are able to use their financial skills to make the right decisions for their companies (Muraga and John 2015). SME owners/managers are closely related to making complex and strategic financial decisions related to the success of achieving goals and business sustainability (Drexler, Fischer, and Schoar 2014).

Several research results show that financial literacy affects the performance of SMEs (Dahmen & Rodríguez, 2014; Aribawa, 2016; Chepngetich, 2016; Ngek, 2016). This connection makes sense when it comes to businesses since those with strong financial literacy will be able to strategically detect and react to changes in the business, economic, and financial climate, ensuring that the decisions they make are well aimed at ensuring the sustainability of their operations.

The Effect of Financial Literacy on Intellectual Capital

Intellectual capital, according to Choo & Bontis (2002) , is the body of knowledge that an organization possesses at a given moment. Human resources, organizational structure, organizational practices, intellectual property, and the company's relationships with its clients, vendors, distributors, and partners make up the company's intellectual capital. In the meantime, financial literacy remains a major problem worldwide. Financial literacy is even a top priority for several nations throughout the world, including the United States, United Kingdom, Australia, Canada, Japan, Singapore, and Malaysia. These nations also incorporate financial literacy in their strategic initiatives. According to Kirsten (2013), financial management skills or abilities are needed for SMEs owners to manage a business to survive and continue to grow. One form of capacity building is training in financial management for business. This hypothesis is supported by the results of research conducted by Asyik et al. (2022), which show a relationship between financial literacy and intellectual capital.

The Effect of Financial Literacy on Risk Attitude

Batik SMEs face various uncertain conditions, such as the Covid-19 pandemic, which has passed, resulting in an increased risk of failure or bankruptcy for SMEs (Resmi,

Pahlevi, and Sayekti 2020). The inability to manage risk and the lack of financial skills training make SMEs focus only on short-term goals rather than long-term ones (Buchdadi et al. 2020). For this reason, a risk attitude is needed in every business by identifying and managing risks as early as possible (Ye and Kulathunga 2019). Understanding financial literacy, such as bookkeeping, financial statement analysis, investment management and matters relevant to business finance, will increase risk attitudes for managers.

This hypothesis is supported by the results of research conducted by Mabula & Ping (2018) that better financial literacy will lead to a higher risk attitude of SME managers. Likewise, the study by Kulathunga et al. (2020), Nohong et al. (2019), and Sohilauw & Nohong (2020) state that the higher the financial literacy, the higher the risk attitude.

The Effect of Intellectual Capital on Business Sustainability

Batik SMEs need more resources. However, these conditions were not an obstacle to the development of his business. The sustainability of SMEs must be oriented towards management skills and human resource strategies to compete in the global market (Styaningrum, Soetjipto, and Wulandari 2020). One resource that can be maximized is intellectual capital (Qianwei Ying et al. 2019). Several studies in developed countries such as England, America and Sweden and developing countries such as Malaysia prove that intellectual capital positively affects business performance (Khalique et al. 2015).

The emphasis on intellectual capital owned by managers will affect the performance of SMEs (Khan et al. 2021). The combination of human capital, structural capital, and relational capital influences the performance of SMEs (Sardo 2018). Research by Ullah et al. (2021) offers a new concept called Green Intellectual Capital which influences the sustainability of SME businesses. Green Intellectual Capital is the overall intangible assets, relationships, knowledge, and capacities of an organization that are applied to maintain the organizational environment.

The Effect of Risk Attitude on Business Sustainability

The risk attitude allows Batik SMEs to identify opportunities and risks related to business sustainability. Gärling et al. (2009) found risk attitude as a significant factor affecting the business sustainability process. Thus the attitude towards risk-taking plays an essential role in business sustainability. Many studies have attempted to provide

empirical evidence about the impact of risk attitudes on business sustainability. Empirically, K. Kulathunga et al. (2019) show that risk attitudes positively affect SME performance. Kortana (2019) examines strategic risk, financial risk, operational risk, and compliance risk that have a positive effect on SME business performance. Agyapong (2020) did the same about market risk, operational risk, financial risk, and technology risk, which positively affect the performance of SMEs. The study's results Jalali et al., (2020) found that risk-taking positively affects SME performance. Batik SMEs must have a risk attitude to achieve better business sustainability by allocating resources for risky strategies and actions with precise results.

The Effect of Financial Literacy on Business Sustainability Mediated by Intellectual Capital

Gross-Gołacka (2020) explains that SME business sustainability is determined by the intellectual capital of human resources with skills and a high level of knowledge. When SME business actors have a good level of financial literacy, they tend to be able to manage their business finances better and can recognize and access financial resources, so they are expected to be able to maintain the sustainability of their business. This is especially true for Batik SMEs in Indonesia. Research by Arum (2021) and Widayanti et al. (2017) also supports this finding.

Asyik et al. (2022) explained that financial literacy could affect intellectual capital. SMEs with good financial literacy are determined from the intellectual development of business actors obtained from the learning process or training provided by the government and educational institutions. Nur Hamidah et al. (2020) and Sudewi & Dewi (2022) also obtained the same thing. Financial literacy can increase business sustainability by mediating intellectual capital through optimally empowering intellectual capital.

The Effect of Financial Literacy on Business Sustainability Mediated by Risk Attitude

Kortana (2019) suggests that the government should participate in activities to increase understanding of risk management for SME performance. Risk management, such as strategic risk, financial risk, operational risk and legal compliance risk, accounts for 60% of the performance of SMEs in Thailand. Glowka et al. (2021) explained that

SME activities involving family involvement in them would reduce the performance of these SMEs, so one solution is to implement risk management.

Buchdadi et al. (2020) and Mabula & Ping (2018) conducted several studies combining financial literacy, risk attitudes and SME business sustainability. Buchdadi et al. (2020) explain that SMEs with a higher level of financial literacy can manage risk attitudes efficiently so that SMEs can face problems and make the right decisions in running their business. The same thing was also revealed by Mabula & Ping (2018) that business sustainability is vulnerable to internal and external changes. Batik SMEs with financial literacy knowledge, especially in terms of risk, enable them to evaluate their actions objectively. Risk attitude is considered an integral part of financial literacy.

CONCLUSIONS AND SUGGESTIONS

In general, the results of the research above prove that the financial literacy variable has a positive and significant impact on business sustainability. Intellectual capital variables can mediate the effect of financial literacy on business sustainability. This concludes that the concept of financial literacy carried out by the creative batik industry players in Kediri has produced business sustainability results amidst uncertain business conditions. Financial literacy indirectly affects business sustainability through the intellectual capital owned by batik industry players. Meanwhile, financial literacy indirectly affects business sustainability, not through the risk attitude of batik industry players. This means that the attitude of risk still needs to be widely known among the batik creative industry players in Kediri. Creative industry players have yet to respond to uncertainties that could happen at any time.

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