




The Influence of financial literacy on the performance and sustainability of MSMEs in SIDOARJO

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| ARTICLE INFO | ABSTRACT |
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| <p><i>Article history:</i> Received Dec 17, 2023 Revised Dec 19, 2023 Accepted Dec 30, 2023</p> <p><i>Keywords:</i> Financial Literacy; Performance; Sustainability.</p> | <p>This research aims to investigate the influence of financial literacy on the performance and sustainability of MSME businesses in Sidoarjo. Financial literacy is an individual's ability to understand and manage finances well. This research was conducted because there are still many MSME players who have a low level of financial literacy, which can affect the performance and sustainability of their business. This research uses a quantitative approach with a survey method. The sample used in this research was 50 respondents from U S MKM business actors in Sidoarjo who were selected using a purposive sampling technique. Data was collected through questionnaires and analyzed using multiple linear regression techniques. The research results show that financial literacy has a positive and significant effect on the performance and sustainability of MSME businesses in Sidoarjo. These results show that the higher the level of financial literacy of MSME actors, the better their performance and business sustainability. Apart from that, the research results also show that other factors such as business experience, access to financial resources, and government support also have a positive influence on the performance and sustainability of MSME businesses in Sidoarjo, so that MSME players can gain a better understanding of finance and strengthen performance and sustainability of their business.</p> <p><i>This is an open access article under the CC BY- NC license.</i></p>  |

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1. INTRODUCTION

MSMEs in Indonesia has an important role in the national economy. However, on the other hand, MSMEs also face various challenges, especially in terms of performance and business continuity. One factor that is considered to influence the performance and sustainability of MSMEs is the level of financial literacy of MSME business actors. Financial literacy is an individual's ability to understand financial concepts and apply them in making daily financial decisions (Lusardi, 2012). Financial ignorance can lead to difficulties in managing the financial aspects of a business as well as making smart financial decisions. Not understanding financial concepts can have a negative impact on business performance and potentially threaten the company's sustainability (Rahayu et

al., 2017). This ignorance can lead to difficulties planning budgets, evaluating investments, and properly managing financial risks (Burchi et al., 2021). Lack of financial literacy can cause difficulties in managing business finances and making appropriate financial decisions, which in the end can affect business performance and sustainability (Pramestiningrum et al., 2020). The 2022 SNLIK results show that the Indonesian people's financial literacy index is 49.68%, an increase compared to 2019 which was only 38.03%. Meanwhile, this year's comprehensive financial index reached 85.10%, an increase compared to SNLIK for the previous period in 2019 of 76.19%. This shows that the gap between literacy and inclusion is decreasing from 38.03% in 2019 to 49.08% in 2022 (OJK, 2022).

As the MSME sector, it plays an important role in the economic development of a country to encourage the growth of the Indonesian economy. According to existing data, MSMEs clearly reduce the number of unemployed and increase employment opportunities for the community (Aribawa, 2016). To maintain business continuity, MSMEs need to carefully consider appropriate methods and procedures. Their success is often hampered by several factors, such as difficulties in obtaining legality, lack of qualified human resources, and problems in managing and marketing their products. This results in delays in the development of MSMEs, making it difficult for them to compete with large companies. Therefore, it is important for MSMEs to overcome these obstacles by finding innovative and effective solutions to increase competitiveness and make a positive contribution to overall economic growth (Yanti, 2019). According to (Zaki et al., 2018) when the next generation assesses formal education, business experience and non-formal education, they will develop attitudes that dynamic in forming and considering aspects of emotional control wisdom in every decision they make.

Therefore, evaluation and assistance for MSMEs needs to be carried out to maintain the running of the economic system. These points show that MSMEs are oriented towards continuous development and innovation (Anugerah, 2021). (Hudson et al., 2001) If MSMEs have financial insight and good business decisions will lead to increased development, increase company survival during a crisis, and ultimately, the company will survive in the long term. sustainability (Dahmen et al., 2014). So MSMEs must have a reference and perspective to develop because in fact MSMEs' orientation must be towards development.

Financial literacy is an interesting point to discuss in this research when compared with case studies of the performance and sustainability of MSMEs in Sidoarjo. Because financial literacy is an important point in building a business (Joseph, 2021). Financial literacy too supports the performance and sustainability of a company and can be applied to global strategic issues where it can form a series of policies to maintain economic stability and accelerate its recovery (Fitria 20212021). If MSMEs in Sidoarjo Regency are able to implement and run it, then the growth of these MSMEs will continue to grow over time (Yanti, 2019).

Research conducted (Ayu et al., 2020) supports previous research that financial literacy influences the performance of MSMEs. In line with this research, (Dahmen et al., 2014) concluded that understanding financial literacy for business people is very important for preparing financial reports and can support company performance. However (Eresia-Eke et al., 2013) found that financial literacy had no effect on the growth of MSMEs. (Olawale et al., 2010) in their research on SMEs in Africa found that understanding financial literacy had no effect on SME growth and SME performance. Researchers must conduct research on what level of financial literacy is This will affect the performance and sustainability of MSMEs. The MSMEs that will be discussed in this research are MSMEs in Sidoarjo City. The aim of this research is to evaluate and analyze the influence of financial literacy on the performance and sustainability of MSMEs. The results of this research provide valuable insight and information for practitioners and MSMEs in Sidoarjo.

2. RESEARCH METHODS

2.1 Types of research

This research uses a quantitative type of research. The aim of this research is to find out how financial literacy as an independent variable influences sustainability and performance as a dependent variable. This research looks at the number of MSMEs in Sidoarjo Regency, which consists of four areas: trade, production, tourism, and services.

2.2 Research Population and Sample

The total population is 106,884 MSMEs, the total research sample is 50 respondents. In this research, samples were taken using a purposive sampling method where respondents were selected based on the researcher's considerations (Dewi, 2018). In this research, samples were taken using a *purposive sampling method* where respondents were selected through the researcher's considerations (Riset et al., 2016). The classification of respondents is owner, manager or financial manager of MSMEs. This sample of MSMEs was selected based on several criteria, namely: they are located in Sidoarjo Regency, have at least one worker, and offer more than one type of product or service.

2.3 Data analysis method

This research uses a structured questionnaire, which is given online to respondents. However, closed statements are the type of statements used. In this research, a differential semantic scale is used to assess the dependent variables of performance and sustainability. The differential semantic scale for assessing the dependent variable of performance is given a score of 1-5 (Sugiyono, 2013).

To assess financial literacy using a Likert scale. Therefore, in this study, financial literacy is measured through a measurement scale with answer scores indicating that "STS = score 1" and "SS = score 5". This research collects data through questionnaires and analyzes it using Partial Least Square (PLS) (Kwong et al., 2013).

3. RESULTS AND DISCUSSION

3.1 Outer Model Evaluation

In this research, research data testing was carried out using the Partial Least Square (PLS) approach with the SmartPLS version 4.0 analysis method. Measurement of convergent validity in the measurement model is carried out using reflexive indicators, where the level of correlation of item scores with variable scores becomes an evaluation parameter. Validity is considered fulfilled if the correlation value of the indicator exceeds 0.70. In the research scale development stage, loading values between 0.50 and 0.60 are still acceptable in the view of (Supriyanti, 2021). These test results are an important basis for ensuring that the measurement instruments used in this research have adequate validity and reliability, so that they can provide accurate and reliable analysis results for the development of knowledge in this field (Dewi, 2018). The following are the test results from Partial Least Square.

Table 1. Construct And Indicator Study

| Construct | Indicator | Outer Loading | Information |
|------------------|---|---------------|-------------|
| Literacy Finance | 1. Ownership account on Name company | 0.775 | Valid |
| | 2. Identification company moment opening account | 0.758 | Valid |
| | 3. Deposit minimum funds at the time opening account | 0.596 | Invalid |
| | 4. Knowledge about guarantee savings | 0.777 | Valid |
| | 5. Understanding about potency return results savings in One year | 0.712 | Valid |
| | 6. Understanding about potency return results savings in multi year | 0.813 | Valid |
| | 7. Understanding about calculation flower credit per year | 0.816 | Valid |
| | 8. Knowledge about premium between two choice product | 0.758 | Valid |
| | 9. Knowledge about influence inflation to mark Money | 0.676 | Invalid |
| | 10. Knowledge about mark time Money | 0.693 | Invalid |
| | 11. Understanding about influence inflation to growth company | 0.666 | Invalid |
| Performance | 1. There is work Which planned And walk in accordance plan Work | 0.876 | Valid |
| | 2. Most of the time happen error Work Which cause repetition | 0.726 | Valid |
| | 3. There is growth sale | 0.590 | Invalid |
| | 4. There is decline cost still | 0.747 | Valid |
| | 5. Ability anticipation production if request increase | 0.482 | Invalid |
| | 6. Guarantee accuracy time to customers | 0.492 | Invalid |
| | 7. Suitability product with specification Which offered | 0.713 | Valid |
| Sustainability | 1. Has achieved BEP | 0.872 | Valid |
| | 2. There is system tracking satisfaction consumer | 0.824 | Valid |
| | 3. There is system tracking satisfaction employee / manager | 0.866 | Valid |

Based on table 1 can stated that the outer loading of each literacy item finance , performance and sustainability own mark correlation more big of 0.50, so can declared valid. This matter show that indicators on each variable declared valid or Enough capable measure variable the (Supriyanti, 2021) .

Composite reliability is said Good If value above 0.60. Based on PLS test results show that composite reliability value for all variable that is literacy finance , performance and sustainability own mark more big of 0.70 and can concluded that variable model the own good reliability (Kwong et al., 2013).

3.2 Inner Model Evaluation

R-Square analysis based on data processing with PLS, produced mark coefficient determination (R-square) is literacy finance to performance give The r-square value is 0.691 , which means big influence literacy finance to performance in MSMEs was 69.1% while 30.9% was influenced by factors others who are also influential to performance of MSMEs in the Regency Sidoarjo . Also explains that literacy finance to sustainability give

The R-square value is 0.632 , which means big influence literacy finance to continuity business in MSMEs in the Regency Sidoarjo amounting to 63.2%.

3.3 Hypothesis testing

Something influence between variable can said significant if calculated t- value more big from (t- table significant 5%) 1.96 or more p-value small from 0.05 (Hikmawati, 2017). Following This results from the smartPLS output after the model is bootstrapped, namely :

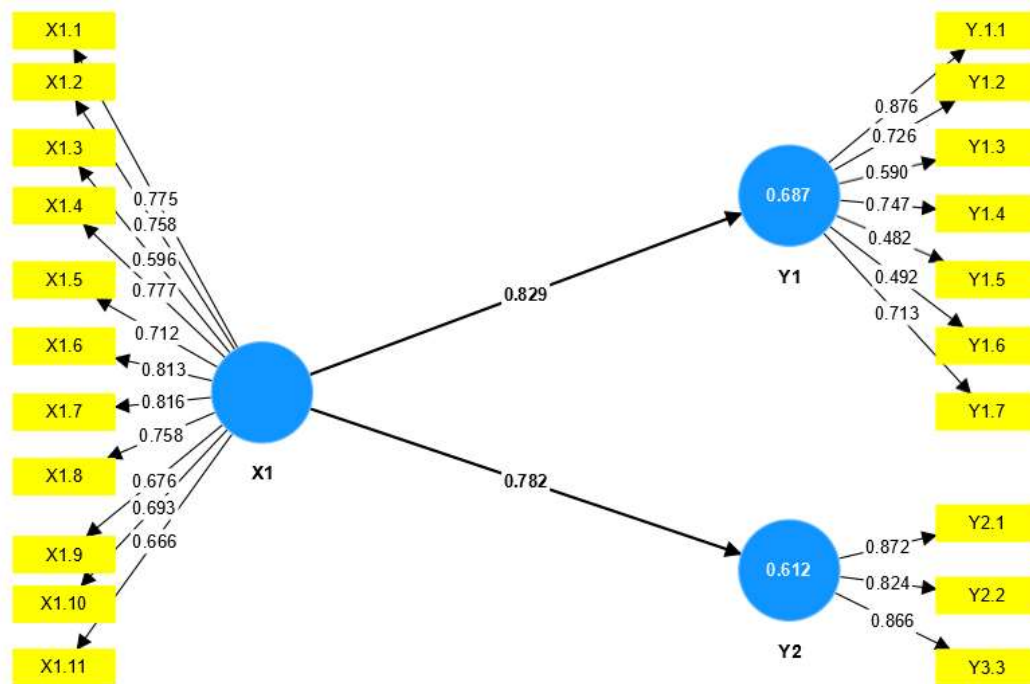


Figure 1. Path diagram results

Based on Figure 1 , there are several indicators in the latent variable with a standardized loading factor of less than 0.6 so they must be reduced from the model (dropping). Indicators of the independent variable (Financial Literacy) which were reduced include X1.3, X1.9, X1.10 and X1.11 . Meanwhile for dependent indicators (Performance and Sustainability) namely Y1.3, Y1.5 and Y1.6 . The following is the outer model and the loading factor value after reduction (dropping) (Nuryanto, 2021).

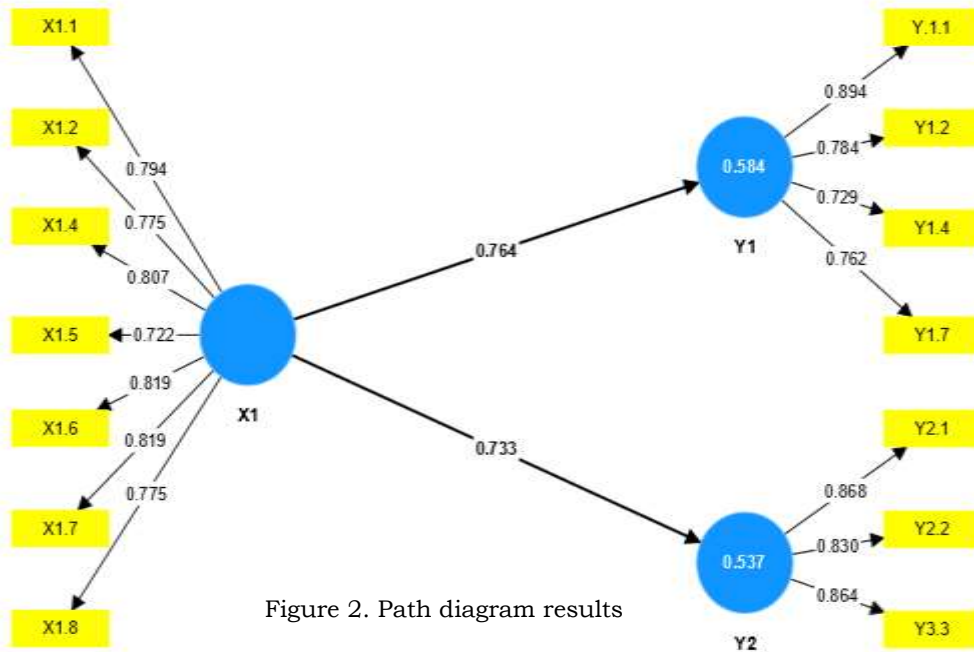


Figure 2. Path diagram results

Figure 2 shows the outer model after reducing the indicators invalid indicator. In Figure 2 , it can be seen that the standardized loading factor value for each indicator is greater than 0.6 (Mohamad et al., 2008). This means that this indicates that the indicators in the outer model are considered valid as measuring tools for the latent variable in question. In other words, the results of the analysis show that the indicators considered are valid and can be used as a good representation for measuring latent variables.

Based on the results of the path diagram above can explained mark from the path coefficients that show influence between variable served in form table under This :

Table 2. Values of Path Coefficients

| Interrelationships __ Variable | Original Sample (O) | T-statistics | T-statistics | Information |
|---|---------------------|--------------|--------------|-------------|
| Financial Literacy Against Performance | 0,764 | 8,048 | 0,000 | Significant |
| Financial Literacy towards sustainability | 0,733 | 5,306 | 0,000 | Significant |

From table 2 above shows the bootstrapping path coefficients that illustrate influence connection between latent variables viz literacy finance to the performance and sustainability of MSMEs is influential significant Is known that literacy finance own significant impact to performance and sustainability business small and medium enterprises (MSMEs). This discovery supports the idea of previous related studies conducted by (Dahmen et al., 2014) , (Aribawa, 2016), (Ayu et al., 2020), (Lusardi et al., 2011)and (Yanti, 2019). By general , study they show that If entrepreneurs in the MSME sector in study This own ability sufficient finances , then decision finance and business created will leads to improved performance from time to time . With thereby can help company stay in the middle crisis and will make business This own long-term sustainability of MSMEs long .

4. CONCLUSION

Based on results and discussions that have been carried out described in chapter before , yes withdrawn conclusion as following : Literacy finance impact on the performance of UKMM in the Regency Sidoarjo. And literacy finance impact on the sustainability of MSMEs in the Regency Sidoarjo. Based on results research and observations carried out , researcher can give information in a way general to perpetrator business small and medium in the district Sidoarjo For increase understanding his finances . So that they can manage finance company more good again and have growing business in period long . This research is limited to Sidoarjo Regency only. Therefore, the conclusions drawn may not be directly applicable to other regions or cities. Share research Furthermore , it is hoped that research will be carried out in other cities with more samples _ Lots Again . For government and banking expected more notice MSME sector because it is very important For supervise MSME sector for its existence in the future support performance and sustainability of MSMEs in the Regency Sidoarjo .

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