

The Effect of Financial Knowledge, Financial Literacy, and Financial Capability on MSME Performance

The Effect of
Financial Knowledge

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ABSTRACT

MSMEs frequently face development challenges due to a lack of financial expertise. Thus, the purpose of this study is to determine how much financial literacy, financial knowledge, and financial competence impact MSMEs' performance in Sampang Regency. The importance of information and skills for corporate success is emphasized in this study. 55 MSMEs made up the sample set, which was selected using a purposive sampling strategy and a quantitative approach. Questionnaires were distributed in October 2024, and SPSS was used to analyze the data. According to the study's findings, MSME performance is positively and significantly impacted by financial knowledge, financial literacy, and financial competence. This result highlights how crucial training and capacity building initiatives are for MSME actors looking to advance their financial literacy. This study creates avenues for future research to delve deeper into the processes that connect MSME success to knowledge, literacy, and financial capacities, as well as other factors that impact MSME performance.

Keywords: Financial Knowledge, Financial Literacy, Financial Capability, MSMEs Performance

ABSTRACT

UMKM seringkali mengalami kendala dalam mengembangkan usahanya karena kurangnya keahlian keuangan. Untuk itu, penelitian ini bertujuan untuk mengungkap sejauh mana financial knowledge, financial literacy, dan financial capability berpengaruh terhadap kinerja UMKM di Kabupaten Sampang. Penelitian ini fokus pada pentingnya pengetahuan dan kompetensi dalam meningkatkan kinerja usaha. Sebanyak 55 UMKM menjadi sampel dalam penelitian ini, yang dipilih dengan menggunakan strategi purposive sampling dan pendekatan kuantitatif. Kuesioner didistribusikan pada bulan Oktober 2024, dan SPSS digunakan untuk menganalisis data. Menurut temuan penelitian, kinerja UMKM dipengaruhi secara positif dan signifikan oleh pengetahuan keuangan, literasi keuangan, dan kompetensi keuangan. Hasil ini menyoroti betapa pentingnya pelatihan dan inisiatif pengembangan kapasitas bagi pelaku UMKM yang ingin meningkatkan literasi keuangan mereka. Penelitian ini memberi akses pada peneliti selanjutnya untuk menggali lebih banyak proses yang mengaitkan kesuksesan UMKM dengan pengetahuan, literasi, dan kapasitas keuangan, serta faktor lain yang memengaruhi kinerja UMKM.

Kata kunci: Pengetahuan Keuangan, Literasi Keuangan, Kemampuan Keuangan, Kinerja UMKM

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INTRODUCTION

MSMEs, or Micro, Small, And Medium-Sized businesses, have enormous promise for the Indonesian economy. Five years after the COVID-19 epidemic caused a downturn in the economy, several nations, including Indonesia, are again vying to boost and even expand their economies. There will be 66 million MSME actors in 2023, and they will generate IDR 9,580 of Indonesia's GDP. MSMEs are able to hire 97% of the labor force as they have a trillion, or 61% large pool of available labor. The government is currently working to improve the performance of MSMEs so that they can compete with goods from other countries (Gamo & Gollagari, 2024). As the main actors and parties who will experience the result, the community needs to be involved in this effort. One region with the potential to grow its MSMEs is Sampang Regency, which is a portion of Madura Island. Numerous MSMEs have appeared in a variety of industries in this advanced period. MSMEs are a good way to make people's lives better (Kasolati & Kamilah, 2024).

The declining rates of unemployment and poverty brought about by this sector's presence lend credence to this. The three functions of MSMEs in the Indonesian economy are to reduce poverty, boost the economy of the general populace, and generate foreign exchange profits for the nation. In order to provide themselves a competitive edge in the economy, MSMEs must adapt and innovate. A key attribute that every MSME must have in order to thrive and advance is strong business performance across all segments, which adds value to the MSMEs themselves. Business performance serves as an example of how well initiatives are carried out to fulfill the organization's vision, mission, goals, and objectives (Sidiqqoh & Alamsyah, 2017). An MSME's performance is not the only indicator of its success. The significance of robust financial management remains largely unrecognized by the majority of MSMEs proprietors.

The issues that MSME entrepreneurs encounter necessitate a thorough grasp of finance through the management and comprehension of every product, service, and financial choice that will be made. The focus of financial knowledge is on the knowledge and abilities that enable one to make wise financial decisions. Firlri & Hidayati (2021), describes everything to do with the financial industry in everyday activities supervised by someone, including financial knowledge. UMKM actors can improve company performance and raise accountability in managing their companies by improving their financial understanding. Regarding MSMEs' lack of financial literacy, financial literacy also affects an MSME's ability to survive. Its financial health and degree of financial literacy are positively correlated. The likelihood of financial difficulties is inversely correlated with MSMEs' level of financial knowledge.

This is consistent with the viewpoint. Safitri & Wahyudi (2022), The cognitive skills, mindset, and information required to make wise financial decisions and attain financial well-being are all included in financial literacy. The objective is to facilitate appropriate financial management and planning in order to achieve future financial well-being. MSME owners usually only record income and expenses, so these records do not show the actual financial condition of the MSME (Reni, 2018). In the scope of MSMEs, financial capability for financial management and achieving sustainable growth is very important. Financial capability includes one's ability to invest wisely, operate financial resources well, control risks and adapt to economic changes. Strong financial capability is very important for MSMEs to grow and compete (Kumalasari & Farida, 2024). The results of the analysis of various literatures are used to identify the existence of knowledge, literacy, and financial capabilities to improve the performance of MSMEs in Sampang Regency.

LITERATURE REVIEW

Financial knowledge is the objective mastery of definitions, terms and financial concepts related to insurance, credit, taxes and investments. Financial knowledge is important to know about the world of finance and as a guideline in daily routines,

especially for MSMEs (Mutasowifin & Sutisna, 2023). Lack of financial knowledge makes someone less effective in making decisions. Financial knowledge is a factor that underlies the performance of MSMEs in the financial sector. This is stated in a study conducted by Hanasri et al. (2023), that MSMEs' performance is positively impacted by financial literacy. This statement explains that financial performance will be better if the quality of financial knowledge is better. Someone who understands financial knowledge tends to pay attention to financial conditions and even improve their quality of life because of their deep understanding, so that if someone is good at applying the right financial knowledge and controlling their money wisely, their goals will be achieved (Gustika et al., 2024).

The ability to manage and spend money effectively requires financial literacy, which is the community's proficiency and understanding of finance. In order for MSMEs to respond to and make the best financial decisions, they must have adequate understanding in the area of financial literacy (Lubis, 2022). A person's quality of life can be enhanced by using financial literacy to solve financial issues. Financial literacy as the knowledge, confidence, and skills of the community in relation to financial services. MSMEs benefit greatly from financial literacy. MSMEs' degree of financial literacy increases with the frequency of their usage of financial goods and services. Financial management techniques can have an impact on financial performance and success (Al-Aziz & Rinofah, 2021). Research obtained Aribawa (2016), stated that there is discernible correlation between financial literacy and the performance and sustainability of MSMEs in Central Java.

Financial capability is a person's capability to be responsible and control financial resources properly including risk management. This refers to what is needed in decision making such as knowledge, and the ability to access the information and resources needed. Financial capability is the ability to manage expenses, income, savings, investments and debts with steps to support the achievement of financial goals. A good level of financial capability is also associated with the ability to cope with economic changes and prepare for a good future. Conversely, problems such as financial instability and difficulty achieving goals can arise if the level of financial capability is low. Stakeholders such as governments, financial institutions, and community organizations recognize how important it is for a person to have financial capability Anantadjaya et al., 2023). The previous analysis was initiated by Ilarrahmah (2021), revealed that financial capabilities such as expertise in making financial reports have been proven to improve the performance of MSMEs.

Efforts to strengthen an MSME begin with improving the financial performance of MSMEs. Financial performance analysis is carried out to assess whether the company has undergone financial implementation regulations (Francis Hutabarat, 2020). Financial performance in the field of MSMEs is defined as the capacity of MSMEs to control and manage all assets, both capital and profit. MSME's financial performance can be measured through the financial reports it prepares (Zuliyati & Indrianingrum, 2021). Through the analysis of financial reports, it can be seen to what extent MSMEs have succeeded in managing their financial resources. Consistent profit growth every year is a sign of good MSME performance. Enhanced financial performance is a significant determinant of MSMEs growth (Pranisya et al., 2024). According to Pramestiningrum & Iramani (2020), MSME performance is characterized by an individual's job accomplishments wherein their position within the organization during a specific time frame aligns with the standard measures implemented by the organization. One of the most crucial aspects of financial management is optimizing MSME performance.

H1: Financial Knowledge has an effect on the performance of MSMEs in Sampang Regency

H2: Financial Literacy has an effect on the performance of MSMEs in Sampang Regency

- H3:** Financial Capability has an effect on the performance of MSMEs in Sampang Regency
- H4:** Financial Knowledge, Financial Literacy, and Financial Capability simultaneously influence the performance of MSMEs in Sampang Regency.

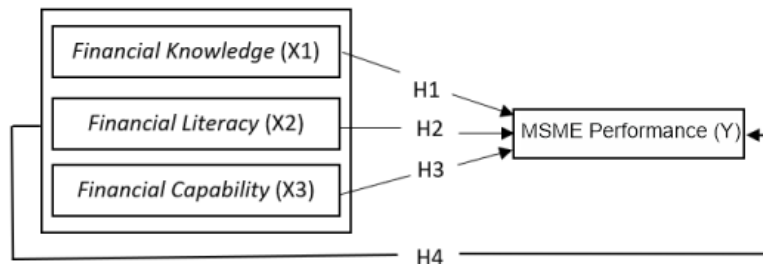


Figure 1. Research framework

METHODS

The data are obtained from primary data using quantitative methods. A quantitative approach based on positivism is carried out to analyze a certain population or sample, obtain data through research media, and measure numerically to prove the adjusted hypothesis. Sugiyono (2016) explaining the purpose of research is to get data, then data collection is a process needed in conducting research. Three techniques used to collect data: Observation, interviews, and questionnaires. The objects studied are MSME owners, precisely in Sampang Regency. The sampling technique consists of the characteristics of the population. This study involved a sample of 55 respondents selected by purposive sampling within one period. Purposive sampling is a method of selecting respondents based on criteria set by the researcher. Financial knowledge (X1) is defined as the ability to control and manage the risks associated with one's current financial resources, enabling individuals to make wise financial decisions. It includes indicators such as knowledge, insurance and investment, savings, loans, and money management, which are measured using a Likert scale (Hanasri et al., 2023). Financial literacy (X2) refers to the process of enhancing consumer knowledge, skills, and confidence to properly manage personal finances. Its indicators include financial planning, financial management, investment experience, and financial literacy level, also measured using a Likert scale (Tsalitsa & Rachmansyah, 2016). Financial capability (X3) encompasses financial management skills, which involve having the knowledge, attitude, and skills to effectively use and manage money. This variable is represented by indicators such as financial reporting capabilities, financial capability, skills, job satisfaction, and spirit at work, evaluated using a Likert scale (Sarira et al., 2023). Lastly, the performance of MSMEs (Y) represents the degree of success a firm achieves over a specific time period. It includes indicators such as innovation, profitability, productivity, sales growth, and customer growth, measured using a Likert scale (Siagian et al., 2019).

RESULTS

Research results the sample data used in this study mostly came from traders in various sub-districts in Sampang Regency, such as Sampang, Camplong, Omben, Karang Penang, Sokobanah, Ketapang, Robatal, Kedundung, Torjun, and Jrengik Districts. This study presents information on the identity of respondents to provide a comprehensive picture of their characteristics. Respondent identities are classified based on categories of gender, age, length of business, and income level.

According to the validity test data, it states that the calculated r value is obtained from the correlation of item scores with total scores, while the R table has been set at 0.266. The significance value of the variables in this study shows a figure of 0.000 so

that both the dependent variable and the independent variable are said to be valid and worthy of further study.

Table 1. Reliability Test

Variables	Cronbach Alpha	Limit	Information
Financial Knowledge (X1)	0.769	0.60	Reliable
Financial Literacy (X2)	0.690	0.60	Reliable
Financial Capability (X3)	0.739	0.60	Reliable
MSME Performance (Y)	0.673	0.60	Reliable

Instrument reliability testing through Cronbach Alpha calculation with a value limit of ≥ 0.60 . Table 2 explains that the financial knowledge variable (X1) with N, which is 55, obtained a Cronbach Alpha of $0.769 > 0.60$, the financial literacy variable (X2) with N, which is 55, obtained a Cronbach Alpha of $0.690 > 0.60$, the financial capability variable (X3) with N, which is 55, obtained a Cronbach Alpha of $0.739 > 0.60$, and the UMKM performance variable (Y) with N, which is 55, obtained a Cronbach Alpha of $0.673 > 0.60$. Based on this statement, the data in this study are reliable.

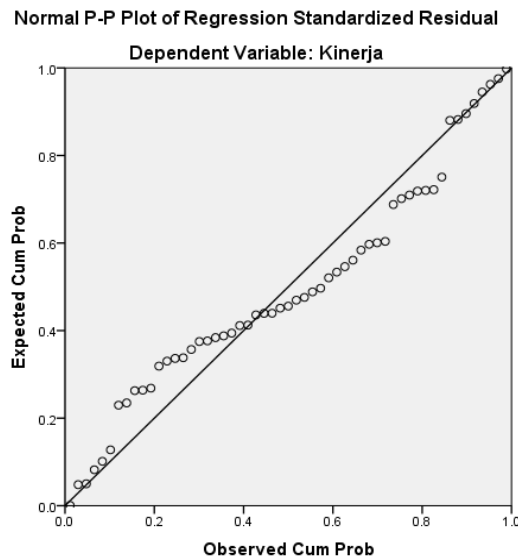


Figure 2. Normal P-Plot of Regression Standardized Residuals

The data distribution pattern in the image above shows that the regression model is appropriate. Data points that tend to gather around the regression line indicate that the normality assumption is met. To prove this, the use of Kolmogorov-Smirnov test is applied in this test.

Table 2. One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		55
Normal Parameters ^{a,b}	Mean	0.000000
	Std. Deviation	2.30797253
Most Extreme Differences	Absolute	0.120
	Positive	0.120
	Negative	-0.114
Kolmogorov-Smirnov Z		0.894
Asymp. Sig. (2-tailed)		0.402

The results of the One-Sample Kolmogorov-Smirnov Test show that the residual data are normally distributed. With a sample size (N) of 55, the mean residual is 0.000, and the standard deviation is 2.308. The most extreme absolute difference is 0.120, with positive and negative differences of 0.120 and -0.114, respectively. The Kolmogorov-

Smirnov Z value is 0.894, and the asymptotic significance (2-tailed) is 0.402 (> 0.05). Based on these results, it can be concluded that the residual data do not deviate significantly from the normal distribution, indicating that the assumption of normality is met for further analysis. Normality is important for the validity of the statistical tests used in this study.

Table 2. Multicollinearity Test and Heteroscedasticity Test

Model	Unstd. Coef. Beta	Std. Error	Std. Coef. Beta	t	Sig.	Tolerance	VIF
Constant	6.110	4.230		1.444	0.155		
Financial Knowledge	-0.056	0.054	-0.195	-1.031	0.308	0.523	1.913
Financial Literacy	-0.033	0.073	-0.087	-0.446	0.658	0.493	2.028
Financial Capability	0.024	0.063	0.075	0.379	0.706	0.473	2.115

This test explains that the tolerance value of each variable is > 0.100 and $VIF < 10.00$ with the tolerance value of the financial knowledge variable (X1) being 0.523 and VIF 1.913, the tolerance value of the financial literacy variable (X2) being 0.493 and VIF 2.028 and the tolerance value of the financial capability variable (X3) being 0.473 and VIF 2.115. This indicates the absence of multicollinearity in the current study.

The Glejser test explains that the significance value for the financial knowledge variable (X1) is 0.308, financial literacy (X2) is 0.658, and financial capability (X3) is 0.706. The three variables produce values above 0.05. This means that H_0 , which states that there is no heteroscedasticity, cannot be rejected. Thus, the variance of the residuals in the regression model is homogeneous or constant.

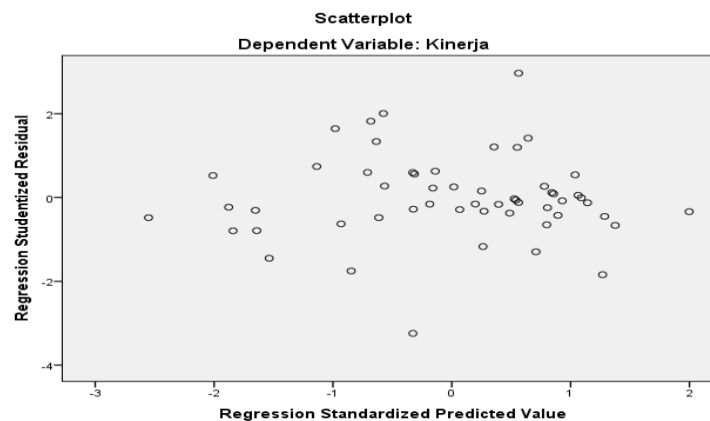


Figure 3. Heteroscedasticity Test

This test describes the data on the Y axis shows that the data has no significant pattern and is randomly spread around the zero value. The Glejser test is employed to conduct a heteroscedasticity test.

Table 4. Multiple Linear Regression Analysis and T-test

Model	Unstd. Coef. Beta	Std. Error	Std. Coef. Beta	t	Sig.
Constant	9.874	6.075		1.625	0.110
Financial Knowledge	0.209	0.078	0.211	2.690	0.010
Financial Literacy	0.342	0.105	0.263	3.258	0.002
Financial Capability	0.614	0.091	0.557	6.760	0.000

The constant value of 9.874 indicates that when financial knowledge, financial literacy, and financial capability are zero, MSME performance will have a baseline value of 9.874. The financial knowledge coefficient of 0.209 suggests that an increase in financial knowledge will lead to a 0.209 increase in MSME performance, assuming other independent variables remain constant. Similarly, the financial literacy coefficient of 0.342 implies that a rise in financial literacy will result in a 0.342 increase in MSME performance, holding other variables constant. Finally, the financial capability

coefficient of 0.614 shows that an improvement in financial capability will enhance MSME performance by 0.614, assuming no change in the other independent variables.

The results of the t-test indicate that the financial knowledge variable (X1) has a t-number value of 2,690 where t count (2,690) > t table (2,007) and a significance of 0.010 which is less than the adjusted significance level of 0.05, so H0 is rejected and H1 is accepted, which means that financial knowledge (X1) has a partial effect on the performance of MSMEs (Y). The financial literacy variable (X2) has a t-count value > t table of 3,258 > 2,007 and a significance of 0.002 < 0.05, so H0 is rejected and H2 is accepted, which means that financial literacy (X2) has a partial effect on MSME performance (Y). The financial capability variable (X3) has a t-value of 6.760 > 2.007 (t table) and a significance of 0.000 < 0.05, so H0 is rejected and H3 is accepted, which means that financial capability (X3) has a partial effect on MSME performance (Y).

Table 5. F Test

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1472.465	3	490.822	87.024	0.000b
Residual	287.644	51	5.640		
Total	1760.109	54			

This test proves that there is a positive correlation between the independent variables and the strong dependent variables. There is a significance of 0.000 ($p < 0.05$) with a calculated f value of 87.024, then the f table is formulated with $(k; nk-1) = (3; 51)$ so that 2.79 is obtained. The calculated f value must be > f table, which is $87.024 > 2.79$. A high f value and low significance show that there is an influence of the independent variables on the dependent variables. The regression model shows that the variables of financial knowledge, financial literacy, and financial capability have a simultaneous influence and contribute significantly in explaining variations in MSME performance.

Table 6. Coefficient of Determination Test

R	R Square	Adjusted R Square	Std. Error of the Estimate
0.915a	0.837	0.827	2.375

The constructed regression model with an adjusted R-squared value of 0.827, i.e. 82.7%, shows a good degree of appropriateness. This implies that the model is capable of accounting for the majority of the variance in MSME's performance attributable to financial knowledge, financial literacy, and financial capability. The residual 17.3% of the variance is likely explained by other exogenous factors.

DISCUSSION

Increasing financial knowledge greatly leads to improving MSME performance, as demonstrated by the t-test analysis, which demonstrates that t count > t table ($2.690 > 2.007$) and the significance value of $t < \alpha$ ($0.010 < 0.05$). This data test means that H0 is rejected and H1 is acceptable. Increasing financial knowledge can be one strategy to improve MSME performance in Sampang Regency. The test results state that the financial knowledge of MSME actors in Sampang Regency has a significant influence on MSME performance (Murtadlo & Utomo, 2024). Financial knowledge is basic knowledge that a person must have in terms of finance. Someone who understands and is aware of the importance of financial knowledge tends to maximize their performance in managing finances. Gender is a demographic characteristic that has significant differences in choosing investments or saving. In this study, men tend to invest and women prefer to save. This is because men are more tolerant of risk than women. Therefore, they are more willing to allocate some funds to investment instruments that have higher risks.

Age also plays a significant role in the process of acquiring and applying financial knowledge. As a person ages, they will experience changes in their understanding, attitudes, and behavior related to finance (Wahyuni & Hafiz, 2023). The majority of

MSME actors are aged 21 to 30 years, this age is considered very productive where someone always wants to know information and try new things. This age range is a transition period in the formation of a person's financial foundation, where they begin to enter the world of work, build an independent life, and face various important financial decisions. They will improve their ability to organize strategies to minimize financial risks and try to minimize expenses in order to achieve their goals. Research is in accordance with Handayani et al. (2022), which states that financial knowledge has a positive influence on MSME performance.

The impact of financial literacy on MSME performance has a significant result of $0.002 < 0.05$ with a calculated t of $3.258 > t$ Table 2.007. Thus, H_0 is rejected and H_2 is accepted, which means that financial literacy (X2) partially influences MSME performance (Y). Financial literacy has an impact on MSMEs' performance and is crucial for assessing financial situations in order to maintain stability. The best way to encourage the expansion of MSMEs is to invest in raising the financial literacy of MSME stakeholders. The results of this investigation are consistent with Rita (2021) and Rahmawati et al. (2023), This claims that MSMEs' performance is positively impacted by financial literacy. Sampang Regency is one of the areas that is very productive in business development so that many new MSMEs have emerged.

Financial literacy shape a person's perspective on financial management and become the key to strategic financial decision-making. The length of operation of an MSME has a strong correlation with its performance improvement (Rai et al., 2019). The longer an MSME has been running, the more likely it is to grow and develop. MSMEs that have been operating for more than 10 years certainly have more business experience. The experience gained over the years will improve their skills in various aspects, such as financial planning and financial management. They often check and evaluate their long-term financial planning, so that if they are in a difficult financial condition, they have prepared steps to overcome it (Bapat, 2020). By implementing financial planning, it will be easier for them to manage their finances and MSME actors have the opportunity to minimize losses. The length of operation is also related to MSMEs building networks. They will build extensive relationships with suppliers, customers, and other business partners. This network is very valuable in obtaining new business resources and opportunities.

Financial capability has a positive and significant influence on the performance of MSMEs. This is evident from the results of the statistical test where t -value $> t$ table ($6,760 > 2,007$) and a significant value of $0.000 < 0.05$, which means that H_0 is rejected and H_3 is accepted. Financial capability (X3) has a partial effect on MSME performance (Y), so that the higher the level of financial capability of MSME actors, the greater the impact on MSME performance (Waheed & Zhang, 2022). The ability to manage finances plays an important role in the growth and development of MSMEs in Indonesia in improving business performance and corporate sustainability. The expertise in preparing financial reports by MSME actors in Sampang Regency is a provision of skills to access financial resources. They have participated in various trainings to gain financial knowledge so that they can improve their skills. The ability to secure business finances in the long term has also been applied. The income generated creates enthusiasm and satisfaction for them. As for customer satisfaction, they always maximize the quality of their services and products (Hang et al., 2022). The reputation built by MSMEs will make customers loyal and recommend them to others. This good reputation will increase customer trust in the products offered. Financial capability means an organizational capability that needs to be considered and reflects its cash flow and financial records. The performance of MSMEs is able to run well because MSME actors have applied the theory of financial capability so that MSMEs are able and ready to face competition. This is in accordance with previous research by Khan et al. (2019); Rina (2023), which reveals that financial capability influences the performance of MSMEs.

In the statistical test results, the f-number test value is 87.024 and the f-table is 2.79, so that $87.024 > 2.79$ is obtained. From this, H_0 is rejected and H_4 is accepted so that there is a positive and significant influence of financial knowledge (X1), financial literacy (X2), and financial capability (X3) simultaneously on the performance of MSMEs (Y) in Sampang Regency. This means that the better the financial knowledge, financial literacy, and financial capability of MSME actors, the better the performance of MSME actors in Sampang Regency. They innovate to increase the competitiveness, efficiency and profitability of their business. Innovation helps MSMEs to create new products that differentiate them from competitors so that they are easier for consumers. The increase in profits and business capital is the result of MSME performance in increasing the number of sales (Luo et al., 2021). They continue to innovate so that their business continues to run by making contemporary products to marketing products using sophisticated internet. Based on the description above, it is proven that financial knowledge, financial literacy, and financial capability have been proven to be able to influence the performance of MSMEs in Sampang Regency.

CONCLUSION

Finding out how financial knowledge, financial literacy, and financial capability affect MSMEs' performance in Sampang Regency is the study's goal. These three aspects are interrelated and form a solid foundation for the success of a business. Financial knowledge as a basic function for financial literacy. By understanding the basic concepts of finance, MSME actors can create a realistic budget and monitor expenses regularly. Financial literacy as a bridge that allows someone to use knowledge in making the right decisions. This helps MSME actors navigate complex financial products and services. Financial capability as an action needed to apply financial knowledge and literacy. Skills in managing finances are the key to the success of MSMEs. By understanding and developing these three aspects, MSME actors can improve business performance, achieve sustainable growth, and be ready to face business challenges well. Based on the conclusion, the suggestion that must be considered is that there needs to be a role for the government in providing comprehensive education, even to remote villages, regarding the importance of understanding financial concepts. And for subsequent researchers, it is recommended that they do not focus on the variables in this study and can even develop the financial capability variable further due to the lack of research that uses this variable.

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