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# Financial Literation and Its Effect on the Performnce and Sustainability of Micro Small and Medium Enterprises in Banyumas

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## Abstract

The purpose of this study was to analyze the effect of financial literacy on the performance and sustainability of MSMEs in the Banyumas Regency. This research is descriptive and quantitative, using the method of regression analysis and using SPSS 16.0 software for Windows. The number of samples in this study was 100 MSMEs in Banyumas Regency. The sampling technique in this study will determine by the nonprobability sampling technique. The results of this study indicate that financial literacy influences the performance and sustainability of MSMEs.

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## Keywords

financial literacy, performance, sustainability, MSME

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## INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) have a vital and strategic role in improving the Indonesian economy. Besides, to play a role in national economic growth, MSMEs also play a role as employment. Besides, the advantage of MSME is that it is not affected by the crisis. It evidences by MSMEs in Indonesia still standing strong, despite the crisis in 1997-1998. Based on data from the Coordinating Ministry for Economic Affairs, it stated that after the economic crisis, the number of MSMEs in Indonesia has not decreased; instead, it has continued to increase, even now reaching 99.9% and can absorb 97% of the workforce. Besides, MSMEs have also contributed to GDP (Gross Domestic Product) by 60.34%. The data proves that MSMEs in Indonesia is very potential in improving the Indonesian economy.

MSMEs contribute a vital role in national economic growth. It is an opportunity as well as a challenge for MSMEs in Banyumas Regency because it demanded to continue to make improvements and developments continuously. Also, MSME actors must increase managerial and financial knowledge to develop MSMEs.

The current condition of MSMEs in Banyumas was reported from the radar banyumas.com, stating that MSMEs in Banyumas have not been able to compete in the global arena. That

is because MSMEs still constrained by classic problems, namely the limited raw materials and labor and many MSMEs that are not ready to produce large quantities—coupled with capital problems, which are classic in business. MSMEs still have limitations to access assistance from the government, both in the form of revolving funds, as well as funds from banks ([www. radarbanyumas.com](http://www.radarbanyumas.com)). It can conclude that the level of understanding of MSME actors towards finance is still shallow. Financial literacy is currently driving business growth. MSME players who know about financial literacy will easily access capital assistance. Also, financial literacy will help MSMEs in managerial and financial decisions. Financial literacy will help business actors related to business management from the budget, planning to save business funds, as well as basic knowledge of finance to achieve business financial goals (Greenspan, 2002).

According to the OJK (Financial Services Authority), the Level Of Financial literacy in the Banyumas Regency is still very low. The results of a survey conducted by the OJK stated that out of 100 people surveyed, only 30% understood the financial services industry products. With in-depth financial knowledge, MSMEs will find it challenging to access capital, whereas access to capital here is a gateway to improve the performance of MSMEs. Also, a low level of literacy will cause problems in terms of business management,

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starting from the budget, planning to save business funds, as well as basic knowledge of finance. The low ability of financial management possessed by MSMEs will hamper MSME sustainability.

Research conducted by Adiningsih (2001) also states that MSMEs in Indonesia is still very limited, especially in terms of business management capability, quality of human resources (HR), and MSME access to financial institutions. Various other unresolved MSME problems include ownership, financing, marketing, and various issues related to business management. These problems make it difficult for MSMEs to develop and compete with large companies (Abor and Quartey, 2010). Therefore, strategic efforts are needed to improve the performance and sustainability of MSMEs. One effort that can do to overcome these problems is by increasing the knowledge of MSME actors in financial matters so that they can manage finances well and develop their business (Aribawa, 2016).

There is a lot of research and literature that discusses the company's ability to recognize and access financial impact on the company's sustainability rate. Research conducted by Aribawa (2016) states that financial literacy influences performance. The results of research conducted by Rahayu (2017) support previous research that financial literacy affects the performance of MSMEs. In line with this research, Dahmen and Rodriguez (2014) concluded that an understanding of financial literacy for business people is essential for the preparation of financial statements and can support company performance.

Research conducted by Dahmen and Ronriguez (2014) states that financial literacy has a positive influence on business success and company performance. Therefore an understanding of financial literacy is essential for business continuity. However, research conducted by Eke and Raath (2013) has different results. Research conducted in Africa found that financial literacy did not affect MSME sustainability and MSME performance. Further research needs to do on financial literacy and its effect on the performance of MSMEs and the sustainability of MSMEs. This research will conduct at UMKM in Banyumas Regency. The purpose of this study is to analyze the effect of financial literacy on performance and MSME's sustainability.

### ***Financial Literacy and MSME Performance***

Lusardi (2012) states that financial literacy is a life skill that everyone needs to have to be able to improve their standard of living and survive in today's complex economic environment. The Financial Services Authority Institute (2016) states that financial literacy is needed for first, the development of an increasingly complex financial services industry. Chen and Volpe (1998) categorize financial literacy into three groups. Namely group 1 which is <60% (which means this individual has in-depth financial knowledge), for group 2 that is 60% - 79% (means individuals know about moderate finance), as well as for group 3 namely > 80% (which shows that individuals have a high level of financial knowledge).

Based on PISA 2012: Financial Literacy Assessment Framework (OECD INFE, 2012), it formulates that financial literacy is a fundamental factor for economic growth and financial stability. From consumers, good financial literacy will lead to spending decisions that prioritize quality. It will result in competition in a healthy industry, and competition will prioritize innovation in goods and services offered to consumers. It is also can minimize the occurrence of wrong decisions on economic and financial issues that arise. From the perspective of financial service providers, good financial literacy will provide adequate information about the product, understanding the risk to customers and cost-efficiency. Meanwhile, from the perspective of the government, with the existence of functional financial literacy in the community, the government can obtain maximum tax revenue for the development of infrastructure and public service facilities.

Mutegi et al. (2015) define the performance of MSMEs is the work achieved by individuals. It adjusts to the role or task of the individual within a company in a certain period, which is associated with a specific value or standard size of the individual company the company works. Success or failure of an organization can be seen with the achievement of organizational goals that have been set.

MSME players who know about financial literacy will easily access capital assistance. Also, financial literacy will help SMEs in managerial and financial decisions. Financial literacy will help business actors in managing

a business from budgets, planning for saving business funds, and basic knowledge of finance to achieve business financial goals, according to Greenspan (2002). Based on research conducted by Anggraini (2016) states that financial literacy can affect one's way of thinking about financial conditions and influence strategic decision making in terms of finances and better management for business owners. So it can be concluded that the importance of the financial literacy of MSME actors can raise the performance of MSMEs.

There is research that links the financial literacy of MSME performance. Research conducted by Aribawa (2016) states that financial literacy influences performance. The results of research conducted by Rahayu (2017) support previous research that financial literacy affects the performance of MSMEs. In line with this research, Dahmen and Rodriguez (2014) concluded that an understanding of financial literacy for business people is essential for the preparation of financial statements and can support company performance. Therefore the hypothesis built in this study is:

H1: There is an influence of financial literacy on the performance of MSMEs.

### ***Financial Literacy and MSME Sustainability***

MSMEs, as the largest informal sector mover in Indonesia with the highest absorption of workers, have an essential role in the economic system. According to Cole, Sampson, and Zia (2010), the fastest way to move the economy in emerging markets is to focus on the development of the informal sector (MSMEs).

The level of financial literacy from the perspective of an individual or family can have an impact on the ability to have long-term savings that use to own assets (such as land or houses), the fulfillment of tertiary education, and pension funds. Ineffective money management will have an impact on the family's financial crisis (Braunstein and Welch, 2002). These findings can also be adapted for companies. In this case, MSMEs that have functional financial literacy will be able to achieve their company goals, have a business development orientation, and be able to survive in challenging economic conditions.

In the business and entrepreneurship literature, lack of knowledge and access to financial resources has been linked to the company's inability to achieve goals (Beck, DemircucKunt, and Maksimovic, 2005; Hutchinson and Xavier, 2006; Malo and Norus, 2009; and Coad and Tamvada, 2012), and manager's discretion in taking strategic actions (Wiklund and Shepherd, 2003). Other literature also confirms that financial literacy and inclusion will be able to increase company sustainability (Cooper, Gimeno-Gascon, and Woo, 1994; Storey, 1994; Forbes Insights, 2011).

Business sustainability at SMEs is seen from the company's success in innovating, managing employees and customers, and returning their initial capital. The sustainability of MSMEs is also closely related to business growth. Adamoko et al. (2015) state that business growth is the company's ability to increase the size of a company. Fatoki (2014), in his research, said that business growth and how to measure it is usually defined and measured using absolute or relative changes in sales, assets, work, productivity, profits. In each stage of development, different factors are crucial for the continuity of company growth and the success of MSMEs.

Research conducted by Dahmen and Ronriguez (2014) states that financial literacy has a positive influence on business success and company performance. Therefore an understanding of financial literacy is essential for business continuity. However, research conducted by Eke and Raath (2013) has different results. Research conducted in Africa found that financial literacy did not affect MSME sustainability. Therefore the hypothesis built in this study is:

H2: There is an influence of financial literacy on the sustainability of MSMEs.

### **RESEARCH METHODS**

This research is a descriptive and quantitative study, which aims to analyze the effect of financial literacy on the performance and sustainability of MSMEs. The method used in this study is a survey method. Data collection is done by several methods, namely by using questionnaires, interviews, and observations. Data obtained through several questions submitted to respondents in the form of questionnaires in the form of open and closed questions, supplemented by interviews with

several respondents and informants who are considered relevant and by direct observation of the object under study. This research conducted in Banyumas Regency. The target population in the study was MSMEs in Purwokerto. The sample in this study determined by a non-probability sampling technique. Namely, the purposive sampling method, where the research sample was selected subjectively based on certain criteria and considerations relevant to the study. The considerations used in this study were respondents of SMEs, who were in Banyumas Regency, who had been running MSMEs for at least 3 (three) years.

**RESULTS AND DISCUSSION**

***Test Instrument***

Before analyzing each variable, it is necessary to test the previous research instrument. The research instrument used in this study was a questionnaire containing opinions representing indicators of each variable. The instrument test is done by testing the validity and reliability of the instrument. This test is run with SPSS 16.0 for Windows.

A validity test is done with the aim to get the right measurements, which can measure what will be measured in this study. The validity test in this study uses the product-moment testing technique. The results of the validity test of sustainability can be seen in the following table:

Table 1. Test Results of the Validity of Financial Literacy Variable Instruments.

Item	r	r table	
1	0,561	0,196	Valid
2	0,701	0,196	Valid
3	0,401	0,196	Valid
4	0,784	0,196	Valid
5	0,694	0,196	Valid
6	0,787	0,196	Valid
7	0,637	0,196	Valid

Source: processed data

Table 2. Test Results of the Validity of MSMEs Performance Variable Instruments.

Item	r	r table	
1	0,613	0,196	Valid
2	0,600	0,196	Valid
3	0,799	0,196	Valid
4	0,783	0,196	Valid
5	0,723	0,196	Valid

Source: processed data

Table 3. Test Results of the Validity of MSMEs Sustainability Variable Instruments.

Item	r	r table	
1	0,650	0,196	Valid
2	0,573	0,196	Valid
3	0,784	0,196	Valid
4	0,782	0,196	Valid

Source: processed data

From the above table, it can be concluded that the research instrument of financial literacy variables, MSME performance, and MSME sustainability, is declared valid because all r count > r table (0.196).

After testing the validity of the instrument, the instrument that has been declared valid is tested for reliability. The reliability test is carried out with the aim of measuring measurement tools that are consistent and reliable for further research. The instrument test was carried out using the Cronbach alpha formula. The following are the results of the reliability test calculations for each research variable:

Table 4. Reliability Test Results

Variable	Cronbach's Alpha	N of Items
Financial Literacy	0,753	7
MSME Performance	0,692	5
MSME Sustainability	0,722	4

Source: processed

Based on table 4 above, it can be seen that all research instruments are declared reliable because they have a Cronbach alpha value higher than 0.60. It can be concluded that all research instruments of each variable can be used in this study. So that all instruments used to obtain information can be trusted to reveal information in the field as a data collection tool.

***Classic assumption test***

After the research instrument is declared valid and reliable, the next step is testing the classical assumptions in this study, using the classic assumption test in the form of normality test and heteroscedasticity test. The traditional assumption test is performed using the help of the SPSS 16.0 program for windows. The following are the results of the normality of research data calculation:

Table 5. Kolmogrov-Smirnov Normality Test Results (Financial Literacy-MSME Performance)

One-Sample Smirnov Test	Kolmogorov- Unstandardized Residual
Kolmogorov-Smirnov Z	.988
Asymp. Sig. (2-tailed)	.283

Source: data processed

Table 6. Kolmogrov-Smirnov Normality Test Results (Financial Literacy-MSME Sustainability)

One-Sample Smirnov Test	Kolmogorov- Unstandardized Residual
Kolmogorov-Smirnov Z	.997
Asymp. Sig. (2-tailed)	.272

Source: data processed

Based on tables 5 and 6 above, it is known that the results of the SPSS normality test have a Sig of 0.283 and 0.272, which is greater than alpha of 0.05. Therefore it can be concluded that the residual value is normally distributed.

Next is heteroskedasticity testing, which aims to test the occurrence of differences in variance from residual values in one observation period to another observation period. Here are the results of the calculation of heteroskedasticity test using the scatterplot image pattern:

Figure 1. Heteroskedasticity Test (Financial Literacy-MSMEsPerformance)

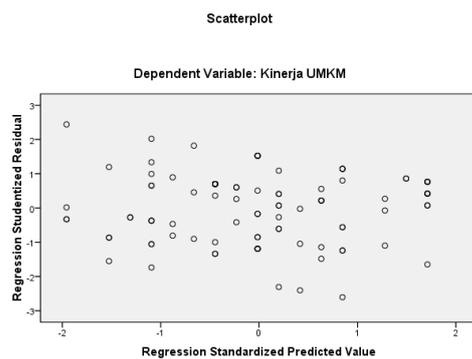
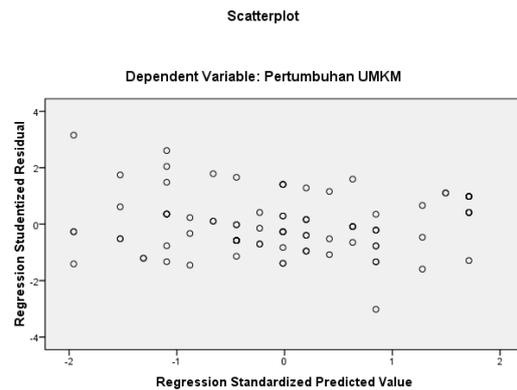


Figure 2. Heteroskedasticity Test (Financial Literacy-MSMEs Sustainability)



Based on the scatterplot above, it can be concluded that there is no heteroscedasticity problem because the spread of data points is not patterned. Therefore the regression model in the research is said to be good and can be fulfilled.

**Hypothesis test**  
**The Relationship between Financial Literacy and MSME Performance**

Hypothesis testing is done using a simple regression analysis. Hypothesis testing is done by comparing the significance value with 0.05. The hypothesis is accepted if the sig value <0.05. Regression results can be seen in the following table:

Table 7. MSMEs Performance Regression Analysis Results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	12.838	1.763		7.281	.000
Literasi	.284	.064	.408	4.426	.000

Source: data processed

Based on the SPSS output above, it can be seen the regression equation between financial literacy variables and MSME performance in the study, which is as follows:  
**Y = 12,838 + 0,284X**

The regression equation above can also explain that financial literacy has a positive influence on MSME performance. This means that if the financial literacy variable increases by 1 unit, the level of MSME performance will also increase by 0.284. It can be concluded that if the higher the financial literacy level of MSME actors, the higher the MSME performance will be.

Based on the data in table 7 above, it can be seen that financial literacy has an influence on the performance of MSMEs because the value of Sig> 0.05 is sig 0.00> 0.05. Therefore, **hypothesis 1**, which states that financial literacy affects the performance of MSMEs, is **accepted**.

Financial literacy is related to the understanding of business actors, namely MSMEs on account ownership in banks, savings, bank interest, and deposits. While the performance of MSMEs relates to MSME sales activities that have increased, as well as the ability to serve consumer orders by maintaining quality and quantity.

The results of this study indicate that the existence of financial literacy for SMEs will increase the access of MSME actors to get their capital. MSMEs can consider in terms of adding capital or credit to MSME businesses that are most profitable for them. UMKM players can fulfill all the needs and orders of consumers, which causes the UMKM sales level to increase.

In addition, with functional financial literacy, SMEs will be able to manage finances well. So that it can help SMEs related to business management from the budget, planning to save business funds, as well as basic knowledge of finance to achieve business financial goals.

The results of this study are consistent with research conducted by Baby and Candra (2019) that financial literacy has a significant effect on MSME performance. The results of this study also support Rahayu's (2017) study that financial literacy influences the performance of MSMEs. In addition, this study also strengthens the research conducted by Dahmen and Rodriguez (2014), which concluded that an understanding of financial literacy for businesses is essential for the preparation of financial statements and can support company performance.

**Relationship of Financial Literacy with UMKM Sustainability**

Hypothesis testing is done using a simple regression analysis. Hypothesis testing is done by comparing the significance value with 0.05. The hypothesis is accepted if the sig value <0.05. Regression results can be seen in the following table:

Table 8. MSMEs Sustainability Regression Analysis Results

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	10.447	1.070		9.760	.000
Literasi	.224	.039	.501	5.736	.000

Source: data processed

Based on the SPSS output above, it can be seen the regression equation between financial literacy variables and MSME performance in the study, which is as follows:  
**Y = 10.447 + 0.224X**

The regression equation explains that financial literacy has a positive influence on MSME performance. This means that if the financial literacy variable increases by 1 unit, the level of MSME performance will also increase by 0.224. It can be concluded that if the higher the financial literacy level of MSME actors, the higher the sustainability of MSMEs will be.

Based on the data in table 7 above it can be seen that financial literacy has an influence on the sustainability of MSMEs because the value of Sig> 0.05 is sig 0.00> 0.05. Therefore, **hypothesis 2** which states that financial literacy affects the sustainability of MSMEs, is **accepted**.

Financial literacy is related to the understanding of business actors, namely MSMEs on account ownership in banks, savings, bank interest, and deposits. While the sustainability of MSMEs is related to business revenue which always exceeds expenditure and the growth of loyalty from consumers and employees towards the organization. With an understanding of financial literacy, business actors are able to manage finances well, are able to plan the use of finances, as well as the search for sources of funds to be used from various parties, both from banks or other financial institutions that determine the interest on the proposed loan or credit offered.

MSME players who have good financial literacy will help MSMEs to achieve company goals and can increase company growth. MSMEs with good financial understanding will be able to carry out business development and be able to survive in challenging economic conditions. Therefore, MSME will have excellent business sustainability.

These results are consistent with research conducted by (Aribawa, 2016) that there is a significant influence of financial literacy on the sustainability of Creative MSMEs in Central Java. However, this study is not in line with Eke and Raath (2013), who found that financial literacy did not affect MSME sustainability.

## CONCLUSION

Financial literacy can affect MSME performance. This can be seen from the ability of MSMEs to manage their finances so that MSME sales always increase every year. Good financial management is also able to organize MSMEs in the effort to achieve work programs that have been made by maximizing the planned budget so that it can improve the performance of MSMEs.

In relation to the sustainability of MSMEs, the financial literacy of MSME actors influences the sustainability of MSMEs. SMEs who have understood financial literacy are able to maintain financial stability, namely by earning an income that always exceeds planned expenses. MSME experiences good business growth and will impact MSME sustainability. In this study, there are several things that become limitations for researchers, such as limitations in one sector, namely only MSMEs.

Future studies can examine in a broader sector, for example, the SME sector. In addition, future research can examine the broader scope of the area not only in Banyumas Regency. Further research can also add variables that have not been examined in this study, for example, financial management variables.

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