

## **THE EFFECT OF FINANCIAL LITERACY ON THE PERFORMANCE OF MICRO, SMALL, AND MEDIUM BUSINESSES IN METRO LAMPUNG CITY**

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**Abstract** - Micro, Small, and Medium Enterprises help many people in reducing poverty. Increased financial literacy and financial inclusion can develop Micro, Small and Medium Enterprises because Micro, Small and Medium Enterprises actors can understand the basic concepts of financial products, good financial planning and management, and protect them in the future from fraud and fraudulent work. not healthy. on financial markets. This study aims to determine the effect of financial literacy on the development of the performance of Micro, Small and Medium Enterprises in Metro Lampung City. The type of research used is a quantitative approach. Collecting data from the study was based on interviews and distributing questionnaires with a sampling technique, namely simple random sampling. The number of samples used was 100 Micro, Small and Medium Enterprises. The data analysis technique in this study was multiple linear regression analysis using the SPSS computer program. The results of this study can be concluded that financial literacy is a factor influencing the development of the performance of Micro, Small and Medium Enterprises in Metro Lampung City.

**Keywords:** Financial Literacy, Performance, Micro, Small and Medium Enterprises.

### **1. INTRODUCTION**

As a source of national economic strength, the existence of Micro, Small, and Medium Enterprises is very important in contributing to the Gross Domestic Product in each country and plays a major role in absorbing labor. Efforts to Assist the Development of Micro, Small, and Medium Enterprises in 2008 The Government of Indonesia stipulated a Law on Micro, Small and Medium Enterprises, namely Law Number 20 of 2008 concerning the definition of business consisting of micro, small and medium enterprises. company. The industrial world is a world that cannot be separated from everyday life. Because the industry is a basic need of life itself. Over time, the industrial world has given birth to various types of industrial fields, one of which is micro, small and medium enterprises. In Indonesia's economic development, Micro, Small and Medium Enterprises play a very important role, especially by contributing to a relatively large Gross Domestic Product. This can be seen from the rapid growth of industry in Indonesia. Micro, Small and Medium Enterprises are required to be able to continue to innovate or make transformational changes and take the latest steps to advance and increase competition in the market. As time goes by, the industrial world must keep up with existing technological developments, for this reason innovation or renewal is needed in the way of marketing carried out by Micro, Small and Medium Enterprises actors.

Micro, Small and Medium Enterprises in Lampung Province reached 150,377 Micro, Small, and Medium Enterprises with the distribution of Micro, Small and Medium Enterprises covering 13 regencies and 2 municipalities in Lampung Province. The distribution of micro, small and medium enterprises in Lampung Province, Metro City ranks 2nd after the city of Bandar Lampung with the largest number of Micro, Small and Medium Enterprises actors. With a total of 23,854 micro, small and medium enterprises. The number of micro, small and medium enterprises is that much, but economic growth in Metro City is still relatively low. This has an impact on Micro, Small and Medium Enterprises in metro cities due to the low quality of Micro, Small and Medium Enterprises in metro cities. The low quality of Micro, Small and Medium Enterprises results in a lack of people's purchasing power which makes the income of Micro, Small and Medium Enterprises actors not optimal and ultimately does not help increase economic growth in cities.

Micro, Small, and Medium Enterprises have an important role in increasing the economic development of a country but are still hampered by several problems, such as weak capital, production, product marketing, and human resources (Irmawati, Damelia, & Puspita, 2013). From 1998-2018 the amount of credit consumption for Micro, Small, and Medium Enterprises did not experience a significant change, the rate of change should not exceed 20% (Bank Indonesia, 2018). Easier banking access will make it easier for the public and business actors to access banking products including credit services for Micro, Small, and Medium Enterprises which will also increase their reach (Diana, 2019). In running a business, one must also have financial skills and knowledge to manage their finances effectively, therefore financial literacy is very important for every entrepreneur. Many studies state that a person's ability to identify and access financial institutions will affect the growth rate of his company (Aribawa, 2016).

Financial literacy and financial inclusion are interesting to study because the Indonesian National Financial Literacy Survey conducted by the Financial Services Authority in 2013 showed that there is a close relationship between financial literacy and financial inclusion, because the higher a person's financial literacy, the greater the level of product beneficiaries and financial services (financial services authority, 2017). Financial literacy can also be interpreted as a process to increase knowledge, ability, and confidence so that people's finances can be more prosperous and also able to manage finances. (Lestari, 2015) in measuring financial literacy can use the financial literacy index to determine the level of knowledge, trust, and skills of the public in financial institutions. According to (Septiani & Wuryani, 2020) financial literacy is the extent to which a person understands financial concepts and proper financial management so that he can make both short-term decisions and long-term planning according to the dynamics of needs and economic conditions.

According to Lusardi & Mitchell (2008), financial literacy is a person's skill to apply knowledge and expertise to achieve better financial behavior, so knowledge, skills, and behavior become an interrelated unit in the concept of financial literacy. Financial knowledge includes knowledge of basic financial concepts, such as the basis of compound interest, the difference

between nominal value and real value, basic knowledge of risk diversification, time value, the value of money, and others (Santoso, Yuwandini, & Mustaniroh, 2015). Financial institutions such as banks and non-banks play an important role in supporting the economy of every community, both people with large and small incomes to support their businesses, and one of the problems experienced by almost all countries, including Indonesia, is the problem of poverty.

In Indonesia, various seminars and meetings have been held to reduce poverty, one of which is by making it easier for people to access financial institutions for all groups (Wiwoho, 2014). Inclusive finance is all efforts made to remove everything that becomes a barrier for society to use financial services, in which financial inclusion is also a national strategy to encourage economic growth by reducing poverty, equalizing income and financial system stability. In several studies conducted by the world bank in various countries, it was found that the involvement of financial inclusion plays an important role in alleviating poverty and driving economic growth (Yanti, 2019). The magnitude of the motivation of business actors, especially in the regions, is not comparable to the conditions that occur in the field, because Micro, Small and Medium Enterprises actors often face several problems such as business competition, access to capital, marketing, infrastructure, and technology (Sanistasya, Raharjo, & Iqbal, 2019).

In running a business, one must have the ability and knowledge about financial literacy and effective financial management for the business being run, because of that financial literacy and financial management are very important for every Micro, Small and Medium Enterprises actor. The perpetrators of increasing Micro, Small and Medium Enterprises still need to be done in order to increase the number of Micro, Small and Medium Enterprises in Metro City. With an increase in the number of Micro, Small and Medium Enterprises actors, it is necessary to provide guidance to Micro, Small and Medium Enterprises actors in improving their business performance by providing an understanding of financial literacy. Based on the background of the problems in this study, the researchers are interested in conducting research on the effect of financial literacy on the performance of Micro, Small and Medium Enterprises in Metro Lampung City.

## **2. LITERATURE REVIEW**

### **Financial Literacy**

The Association of Chartered Certified Accountants (2014) formulates that the concept of financial literacy includes knowledge of financial concepts, the ability to understand communication about financial concepts, skills in managing personal/company finance, and the ability to make financial decisions in certain situations. Lusardi & Mitchell (2008) stated that financial literacy consists of a number of abilities and knowledge about finances that a person has to be able to manage or use a certain amount of money to improve his standard of living.

Financial literacy is very closely related to behavior, habits and the influence of external factors. The Financial Services Authority defines financial literacy as knowledge, skills and beliefs that influence individual attitudes and behavior to improve the quality of decision-making and financial management in order to achieve prosperity. Financial literacy is a person's ability or knowledge in managing all of his financial resources effectively (Manurung & Manurung, 2009).

Financial literacy is a fundamental factor for economic growth and financial stability for consumers, financial service providers and the government. Good financial literacy will produce purchasing decisions that prioritize quality, and minimize decision errors that will be made on economic and financial issues. Good financial literacy will provide adequate information about products, understand risks to customers, and good financial literacy in society will increase tax revenues for the government to maximize infrastructure development and public service facilities (Aribawa, 2016). Micro, Small, and Medium Enterprises as the driving force of the largest informal sector in Indonesia with the largest number of workers have an important role in the economic system. According to Cole, Sampson, & Zia (2010), the fastest way to drive the economy in emerging markets is to focus on the development of the informal sector (Micro, Small and Medium Enterprises) which will have an impact on increasing the income level of the middle class. The level of financial literacy from a personal or family perspective can have a pathway to the ability to have long-term savings that are used to own assets (such as land or a house), fulfill higher education and retirement funds (pensions). Ineffective money management will have an impact on family financial crises (Bonga & Mlambo, 2016). The findings can also be adapted for companies. Micro, Small and Medium Enterprises that have good financial literacy will be able to achieve their company goals, have a business development orientation and be able to survive in difficult economic conditions. In this study, financial measurements refer to Hudson et al., (2021) and Lestari (2015)

### **Performance of Micro, Small, and Medium Enterprises**

In global competition, companies are expected to be able to provide more added value to the goods/services offered both in quality and efficiency compared to competitors. This is especially difficult for Micro, Small, and Medium Enterprises, due to a lack of management skills and limited working capital management. Despite these limitations, Micro, Small and Medium Enterprises tend to have resilience (stable performance) to changes in the business and economic climate (Dewi, Yurniwati, & Rahman, 2018). Dewi et al., (2018) stated that the performance of Micro, Small and Medium Enterprises was analyzed using an approach based on the following three assumptions, namely:

1. Measuring the performance of Micro, Small, and Medium Enterprises is often difficult due to limited resources (financial and labor understanding).
2. Performance measurement generally looks at complex financial indicators, so this does not fully reveal the actual conditions that occur in the business.

3. Performance measurements that are often used are relatively only suitable when used for large companies that are structured in their company management. Then a non-cost performance measurement approach is formulated to measure the performance of Micro, Small and Medium Enterprises as a measurement of the financial and non-financial performance of Micro, Small and Medium Enterprises.

With easy measurement (through perception) it is hoped that it will be able to reveal the actual conditions of the Micro, Small, and Medium Enterprises, in addition to the future it is necessary to carry out education to calculate company performance with easy indicators such as company growth, company total income, total orders, and cash position. Business continuity in Micro, Small, and Medium Enterprises is seen from the company's success in innovating, managing employees and customers, and returning initial capital. Where this shows that companies have an orientation to develop and see opportunities for innovation irrationally (Hudson et al., 2021). In this study, performance measurement in Micro, Small, and Medium Enterprises refers to Aribawa (2016).

### **3. METHOD**

#### **Research design**

The type of research used in this research is a quantitative research using an associative approach. Quantitative research is research that obtains data in the form of numbers or data in the form of numbers in statistical analysis. This research has the highest level compared to descriptive and comparative research because with this research a theory can be built that can function to explain, predict and control a symptom. There are 2 variables in this study, namely the independent variable and the dependent variable. The independent variable is Financial Literacy and the dependent variable is the performance of Micro, Small, and Medium Enterprises.

#### **Population and Sample**

Based on data from the Office of Cooperatives and Micro, Small, and Medium Enterprises for 2021, the number of Micro, Small, and Medium Enterprises in the metro city, from the trade sector, there are 5,000 Micro, Small, and Medium Enterprises, in the industrial sector there are 1,250 Micro, Small, and Medium Enterprises, and in the service sector there are 1,961 Micro, Small and Medium Enterprises, so the total number of population in this study is 8,211 Micro, Small, and Medium Enterprises. The sample used is 100 Micro, Small, and Medium Enterprises which will be researched and analyzed. The research used a sampling technique, namely simple random sampling with the object of research being Micro, Small, and Medium Enterprises actors. Respondents of this study are individuals who understand and participate in the strategy development process of the company. In Micro, Small, and Medium

Enterprises, relatively many owners take a role in strategic decisions. However, there may be managers who are also responsible for certain Micro, Small, and Medium Enterprises. One sample represents one Micro, Small, and Medium enterprise. If there are two respondents in one company, the data will be taken on average.

### Method of collecting data

The primary data collection method was carried out by online questionnaires and face-to-face with the respondents. The questionnaire consists of demographic questions and structured research questions. Respondents' opinions were measured using a five-score Likert scale. Score 5 for opinion strongly agree, score 4 for opinion agree, score 3 for opinion disagree, score 2 for opinion disagree, and score 1 for opinion strongly disagree.

The variables used in this study consist of two independent variables, namely financial literacy and financial inclusion which will determine whether or not there is an influence on the dependent variable, namely the performance of Micro, Small, and Medium Enterprises. The operational definition of each variable will be shown in the following table.

Table 1. Operational Variables

VARIABLE	DIMENSIONS/ SUB VARIABLES	SCALE	SOURCE
FINANCIAL LITERACY	1. Economic Transactions 2. Economic Resources 3. Shopping Concept 4. Concept of Saving 5. Taxes 6. Financial Crime 7. Beliefs Regarding Financial Institutions, Products, and Services	Likert Likert Likert Likert Likert Likert Likert	Hudson et al. (2021) dan Lestari (2015)
PERFORMANCE OF MICRO, SMALL, AND MEDIUM ENTERPRISES	1. Profit Growth 2. Growth in the Number of Subscribers 3. Sales Growth 4. Growth in Total Assets	Likert Likert Likert Likert	Aribawa (2016)

Data analysis was carried out with the aim of processing data into a form that is easier to read and understand. This study uses multiple linear regression analysis techniques with the help of SPSS software. (Priyatno, 2009) revealed that multiple linear regression analysis is useful to

determine the level of significance of the linear relationship between 2 or more independent variables with 1 dependent variable that has been formulated.

#### 4. RESULTS AND DISCUSSION

Based on the classical assumption test that was carried out, this research model meets the assumptions. The data used is normally distributed, the research model is free from multicollinearity and autocorrelation, and the heteroscedasticity test results in the regression model also do not have heteroscedasticity problems. The analysis in this study uses multiple regression analysis which functions to determine whether there is an influence between the two variables, namely financial literacy variables on the development of the performance of Micro, Small, and Medium Enterprises. Processing results are shown in the following table:

##### Multiple Linear Regression Analysis

Recapitulation of the results of the correlation analysis and multiple linear regression can then be seen in the following table,

Table 2. Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.922 <sup>a</sup>	.850	.848	.770
a. Predictors: (Constant), LITERASI KEUANGAN				

Source: Results of Data Processing

Based on the output table above, it is known that the coefficient of determination or R Square is 0.922, meaning that financial literacy affects the performance of Micro, Small, and Medium Enterprises by 92.2%, while the remaining 7.8% is not influenced by other variables. included in this study.

Table 3. Coefficients

Coefficients <sup>a</sup>					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1	(Constant)	3.980	.624	6.382	.000
	LITERASI KEUANGAN	1.380	.059	.922	.000
a. Dependent Variable: KINERJA UMKM					

Source: Results of Data Processing

Based on the results of the calculations in the table above, the multiple linear regression equation can be compiled as follows.

Performance of Micro, Small, and Medium Enterprises = 3,980 + 1,380 Financial Literacy

From the equation of the regression line it appears that the resulting constant is 3.980 indicating that the magnitude of the performance development of Micro, Small and Medium Enterprises is 3.980 if the financial literacy variable is zero or constant. The regression coefficient on the resulting financial literacy variable is 1.380 which indicates that if the financial literacy variable increases by one unit, the development of the performance of Micro, Small and Medium Enterprises will increase by 1.380. The results of the calculations show that financial literacy has a positive and significant effect on the performance of Micro, Small and Medium Enterprises in Metro City. This is based on the results of the t-count of 23.546 with a significance level of <0.05, which is 0.000. These results mean that the performance of Micro, Small and Medium Enterprises will increase if financial literacy among Micro, Small and Medium Enterprises actors is increased. The higher financial literacy, the higher the performance of Micro, Small and Medium Enterprises in Metro City.

These results are in accordance with the Theory of Financial Knowledge where an increase in financial knowledge will affect how Micro, Small and Medium Enterprises entrepreneurs can be more skilled in managing finances. This finding is reinforced by the statement that financial literacy will affect financial skills, namely the ability to know basic economic and financial ideas, to how to apply them properly (Santoso et al., 2015). The results of this study support the theory and results of previous research, including from (Aribawa, 2016) which revealed that if business actors in the Micro, Small, and Medium Enterprises sectors have adequate financial literacy skills, then the business and financial decisions taken will result in good development. Good. increase from time to time, increase the ability of businesses to survive in the midst of a crisis, and ultimately will make the business have long-term sustainability. The same thing was expressed (Chimucheka & Runhani, 2011) that financial knowledge also has an impact on the growth and sustainability of Micro, Small and Medium Enterprises.

## 5. CONCLUSION

The results of the study show that the higher the level of financial literacy, the higher the performance development of Micro, Small, and Medium Enterprises in Metro City. Thus, the level of financial literacy is very important for the development of a business, because a good business needs to be supported by good financial management.

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