



## The Effect of Financial Literacy on the Financial Management of MSMEs in Jatinangor District, Sumedang Regency

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### ARTICLE INFO

#### Article history:

Received Oct 08, 2021

Revised Oct 13, 2021

Accepted Nov 05, 2022

#### Keywords:

Financial Literacy,  
Financial Management,  
Micro,  
Small and Medium Enterprises

### ABSTRACT

The ability to understand and manage one's personal finances is what we mean when we talk about financial literacy. Understanding money matters is crucial when running a small or medium business (SME). The purpose of this research is to investigate and analyze the way that financial literacy affects the way that MSMEs in Jatinangor, a subdistrict of Sumedang Province, handle their money. There were 72 participants in this study, and the researchers used a descriptive quantitative methodology. Simple linear regression analysis and descriptive statistics are the methods employed. Based on the available data, financial literacy has a minimal effect on financial management (31.7% to be exact), while other factors (68.3%) are more significant. Small and medium-sized enterprises (SMEs) in the Jatinangor District have a low level of financial literacy. To better assist MSMEs with financial management, it is necessary to increase financial knowledge. Several factors, such as education level, exposure to financial information, and age of MSME actors, contribute to the low financial literacy of MSMEs in this study.

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## INTRODUCTION

Micro, Small, and Medium-Sized Enterprises (MSMEs) are among the numerous activities that play a crucial role in enhancing the Indonesian economy. The largest business group that has demonstrated resistance to various economic crisis shocks is the most resilient (Pratiwi, 2020). The role of Micro, Small, and Medium-Sized Enterprises (MSMEs) is the best solution because MSMEs can create employment opportunities, thereby resolving the unemployment issue (Sedyastuti, 2018). There is always a market for the Micro, Small, and Medium Enterprises (MSME) sector's production of goods and services, given that the MSME sector is a producer of goods and services, particularly for the lower middle class with high purchasing power. low (Atmaja, 2018).

The population of Micro, Small, and Medium Enterprises (MSMEs) is still predominately made up of Micro Enterprises, which accounts for 98.68% of the total, while the remaining enterprises are small and medium enterprises (Aprilyan & Sasanti, 2022). The empowerment of micro, small, and medium-sized enterprises (MSMEs) is very strategic because of its enormous

potential to drive the economic activities of the community, while at the same time serving as the primary source of income for the majority of people in order to improve their standard of living (Setyawati, 2018).

The number of MSMEs continues to grow very rapidly but many MSMEs experience very slow growth in their business which has resulted in several cases of MSMEs going out of business (Adawiyah, 2013). The failure that is often experienced by MSME actors to develop their business is due to the weaknesses possessed by these MSMEs, such as limited capital owned, weak management, lack of utilization of information, technology, and weak financial literacy in business financial management (Kurniawati et al. , 2021).

MSME actors consider that accounting is a difficult thing that requires a certain time and cost when implementing it. Until now, many MSMEs have not implemented accounting in managing their business finances resulting in failure in running their business (Mulyani, 2014). According to Andriani et al., (2014) "the low accounting practice in MSMEs in Indonesia is due to an educational background that does not know about accounting, lack of discipline and diligence in the implementation of accounting books, the absence of sufficient funds to employ accountants and the absence of regulations requiring the preparation of accounting books. reports for MSMEs (Setiawan, 2021).

Therefore, strategic efforts are needed to improve the performance and sustainability of MSMEs. One way that can be done is to enrich the literacy of MSME actors towards financial knowledge so that their management and accountability can be better accounted for as befits a large company (Ardila et al, 2012). the company's ability to recognize and access financial resources will have an impact on the company's growth rate (Septiani & Wuryani, 2020). In facing the ASEAN Economic Community, MSMEs that are "mature" in management and "strong" in financial management are expected to be Indonesia's main key in competing in the global market (Sudaryanto & Wijayanti, 2013).

Financial literacy is a person's understanding or ability to measure related financial concepts and have the ability to manage finances that apply accountability well (Hidajat, 2016). Based on Desiyanti (2017), "A person can be said to be well literate if he has knowledge and beliefs about financial institutions, products and services, as well as skills in knowing the features, benefits, risks, rights and obligations of these financial products and services". The financial literacy of MSME actors is one of the keys to a country's economic growth.

In addition to financial literacy, one of the main challenges that are often faced by MSME actors is related to financial management. Good financial management is also a key factor that can lead to the success or failure of SMEs (Utami, 2021 ). Accounting is utilized for financial management. Accounting is a systematic process for producing financial information that can be used by its users for decision-making. For the success of micro, small, and medium-sized enterprises (MSMEs), recording-based financial management is crucial (Wahyuni et al, 2018).

According to the findings of researcher interviews with a number of MSME actors in Jatinangor District, Sumedang Regency, there is a lack of financial literacy or understanding and awareness of the importance of recording activities in managing business finances among MSME actors. Currently, MSMEs continue to be plagued by a variety of limitations and issues. However, the fundamental source of the issue is the limitations of Human Resources, specifically those of the MSME actors. Therefore, strategic efforts are required to enhance the performance of MSMEs' sustainability and the community's well-being. One of the measures that can be taken is to increase the financial literacy of MSME actors so that better accounting rules can be applied to financial management. MSME actors must master financial literacy because their knowledge is a factor in business success, including the management of MSME finances (Ardila et al, 2021).

Based on the above phenomenon, the author sees a research opportunity to examine the internal conditions of MSMEs, one of which is financial literacy. Thus, the authors are interested in making this variable as an independent variable in this study. Therefore, the authors made this

study to determine the extent to which the above variables affect the financial management of MSMEs through the distribution of questionnaires to MSMEs in Jatinangor sub-district. This research can also support the MSME empowerment program which is expected to improve the sustainability of MSMEs.

## RESEARCH METHOD

This study employs quantitative methodology and descriptive research design. Descriptive research refers to a clearly structured type of research in which the type of data required and who (and the size of the sample) are determined prior to data collection (Suhartanto, 2014). This research also employs quantitative methods, which are research methods based on the philosophy of positivism, used to examine certain populations or samples, sampling techniques are generally conducted randomly, data collection employs research instruments, and data analysis is quantitative. / statistics in order to test the established hypothesis (Sugiyono, 2011). The population of this study consisted of 250 MSMEs under the supervision of the Cooperatives and MSMEs sub-district Jatinangor. The sampling was conducted using the probability sampling method of simple random sampling, with a total of 72 respondents. This research's primary data are collected through the distribution of questionnaires to respondents. The data analysis technique utilized in this study was regression. Linear Simple with Hypothesis Statistical analysis using the t-test and coefficient of determination.

## RESULTS AND DISCUSSIONS

Based on the distribution of questionnaires in this study, 72 respondents were obtained with the object of research being MSME actors in Jatinangor sub-district dominated by MSME actors aged more than 50 years. Based on the latest Education category, it shows that MSME actors are dominated by the latest education of SMA, SMP, and Others because the final results of these categories are the same, namely 21 people or 29% each. Based on the category of length of business running, it shows that MSME actors are dominated by the duration of the business running for more than 2 years, namely 54 people or 75%.

Based on descriptive analysis of the financial literacy variable, it shows that of the 72 respondents of MSME actors the maximum value generated is 92 and the minimum value is 0. The average value of 46 indicates the financial literacy level of MSME actors is included in the low category. The average respondent can answer 7 questions correctly. of the 16 questions given.

**Table 1** Results of Descriptive Analysis

Variable	N	Minimum Value	Maximum Value	Average
Financial Literacy	72	0	92	46

The low results of MSME financial literacy in this study were also influenced by several things, namely the level of education, receipt of information about finance, and the age of the MSME actors themselves .

Based on the results of data processing descriptive analysis of the financial management variables of SMEs, obtained a percentage of 56.91%. This figure is in the sufficient category. It can be seen that among the 16 statement items that describe the financial management of MSME actors, the 6th item is the item "my business has internal finances" which has the highest score with a percentage of 72.24% (good category). The statement item that has the lowest score is the -12th statement regarding the creation of a business ledger with a presentation of 48%. This shows that MSME actors are managing their business finances in sufficient condition. This means that they do

financial management for some time but also do not do intensive financial management for some time.

**Table 2.** Test Results of Simple Regression Effect

Model	Unstandardized Coefficient		Standardized Coefficient	t	Sig.
	b	Std. error	Beta		
1. Constant	1,812	.209		8,644	0.000
Financial Literacy (X1)	2.234	.385	.567	5.790	0.001

a. Dependent Variable: Financial Management

Based on the results of the study, a simple linear regression was determined to be  $Y = a + bX$ , or  $Y = 1.812 + 2.234X$ . The plus sign indicates that an increase or decrease in the independent variable (X) will lead to an increase or decrease in the dependent variable. (Y).

t table = 1.994 and t count = 5.790 are the outcomes of the t-test data processing. With a significance level of  $0.001 < 0.005$ ,  $t_{count} > t_{table}$  ( $5,792 > 1,994$ ), indicating that Financial Literacy has a significant effect on Financial Management. In this study, therefore,  $H_a$  is accepted while  $H_o$  is rejected. The data analysis of the coefficient of determination reveals that Financial Literacy influences Financial Management by 31.7%, while the remaining 68.3% is influenced by factors not examined in this study.

Based on the results of the hypothesis testing, it can be concluded that financial literacy has a significant impact on the financial management of MSMEs. In light of the results of the analysis of financial management, which place it in the sufficient category, it is possible to conclude that financial literacy has an impact on the financial management of MSMEs. Anggraeni (206), who conducted research on the effect of business owner's financial literacy on financial management of a case study on MSMEs in Depok, reached the conclusion that a low level of financial literacy affects business owners' ability to manage business finances. According to Ida and Dwinta's (2010) research, an individual's financial management behavior is influenced by his or her financial knowledge. This implies that it is hoped that with adequate financial literacy, MSMEs will be able to make the appropriate management and financial decisions to enhance performance and business sustainability.

Not setting aside finances for business development, most MSMEs in Jatiningor Sub-district choose to use personal funds to develop their businesses, but in setting aside some of the profits to be saved in an effort to develop their businesses it is not realized because there are still many MSMEs that fulfill their wants rather than needs. The higher the income a person has, the greater the desire for someone to buy what they want more than what is needed, someone like this will not understand the benefits of saving or investing for the future (Soli & Arnasik, 2018).

In terms of financial records, most MSME actors record only limited incoming and outgoing cash receipts that have not yet made financial reports, this also results in MSME actors not being able to assess the financial performance of their business, MSME actors are unable to make financial decisions, maintain sustainability their business so that they cannot get prosperity in the long term. An entrepreneur who is more likely to produce better financial reports will have a high level of profitability from loan payments and for business continuity will be higher (Rahayu & Musdholifa, 2017).

Financial literacy is one of the basic needs that must be owned by SMEs in running a business. Failures in business that are often experienced by MSMEs can occur due to mistakes made in business management and lack of good financial literacy. Financial literacy is a person's knowledge or understanding of the basic concepts of finance in managing finances obtained from income for decision making, this affects financial literacy on the financial management of MSMEs (Arianti & Azzahra, 2020).

With a good level of financial literacy, MSME actors are able to control the financial condition of their business in making financial decisions, the ability to maintain a business with good financial performance increases the welfare obtained in the long term. Skills in financial management are also very important in running a business in order to minimize a financial problem, source of funds, allocation of funds, and distribution of company profits. Business owners must have knowledge in managing finances so that they can carry out fundraising activities, allocate funds in maximizing business activities and minimizing risks in financial problems (Al Falih et al, 2019).

Knowledge, skills, and confidence in one's ability to make and manage financial decisions responsibly and successfully are what constitute financial literacy, as defined by Financial Services Authority regulation Number 76 of 2016. The findings of Laily (2016), who found a strong correlation between financial literacy and responsible financial management, lend credence to this view. Financial literacy has been shown to significantly improve the financial management practices of micro, small, and medium-sized enterprise (MSME) actors by Humaira & Sagoro (2018). This means that a person's approach to managing money improves in tandem with the level of knowledge they have in this area. Good financial literacy not only makes MSME actors competent in financial management, but also aids them in making important business decisions.

## CONCLUSION

This study indicates that the average level of financial literacy among MSMEs in the Jatinagor sub-district is 46, placing them in the low category. The MSME financial management analysis yields a presentation score of 56.91%, placing it in the sufficient category. Therefore, based on the findings of this study, financial literacy has a positive effect on the financial management of SMEs and a 31.7% impact on financial management. Poor financial management, that MSME actors lack skills in managing their business finances, including the implementation of financial reports, and that many MSME actors have not used financial reports for their businesses. With a propensity to overcome their limitations, MSMEs operate cooperatively to complement each other's limitations and gain specific competitive advantages in the global environment..

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