The Effect of Financial Literacy and Capital Management on MSME Performance

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ABSTRACT

Purpose–This study aims to determine whether there is an effect of financial literacy, financial management, and capital on the performance of UMKM at Ida Martunas LKM for the 2017-2020 period.
Method– The data analysis method used in this study is a quantitative descriptive method and a simple linear regression test analysis model, the test is carried out using the classical assumption of normality and linearity as well as the hypothesis being tested using the coefficient of determination $(R2)$, simultaneous test (F test) and partial test (t test) with data processing using the SPSS Statistics 22 program.
Findings–The results showed that the coefficient of determination test $(R2)$ obtained a result of 0.984 or 98.4% indicating that the variables of financial literacy, financial management, and capital were able to explain the variations that occur in the performance of MFI Ida Martunas, while the remaining 1.6% is explained by other variables not examined. The results of the partial study of financial literacy and financial management have no and no significant effect on the performance of MSMEs, while capital has a negative and significant effect on the performance of MSMEs at Ida Martunas LKM. Meanwhile, the results of simultaneous testing of financial literacy, financial management, and capital have a significant and significant effect on the performance of MSMEs at Ida Martunas LKM.

INTRODUCTION

Law Number 25 of 1992 concerning Cooperatives (hereinafter referred to as the Cooperative Law) does not limit the business activities of cooperatives, so that cooperatives can run businesses in all fields of people's economic life that are directly related to the interests of members.1 Article 44 Paragraph (1) of the Cooperative Law states that cooperatives can carry out fund management activities through savings and loan business activities from and for members of the cooperative concerned, other cooperatives and/or their members. Based on these provisions, cooperatives, especially Savings and Loans Cooperatives are only entitled to manage member funds and are prohibited from managing non-member funds. However, in fact, many cooperatives in Indonesia do not heed these legal norms by managing public funds that are not members of the cooperative. In order not to violate the provisions of the Cooperative Law and to strengthen its position, cooperatives that manage non-member community funds can establish a Microfinance Institution (hereinafter

referred to as MFI) by applying for a business license as an MFI Cooperative to the Financial Services Authority (hereinafter referred to as OJK). The relationship between cooperatives and Law Number 1 of 2013 concerning Microfinance Institutions (hereinafter referred to as the MFI Law) is stated in Article 4 of the MFI Law which stipulates that one of the requirements for the establishment of an MFI is to meet a legal entity form. This provision is clarified by Article 5 of the MFI Law which stipulates that the legal entity in question is a Cooperative or Limited Liability Company (hereinafter referred to as PT). An MFI established by a cooperative legal entity is hereinafter referred to as an MFI Cooperative. The existence of dual institutions in one body, namely Cooperatives and MFIs causing MFI Cooperatives in the end to be under 2 (two) regulations, namely the Cooperative Law and the MFI Law. The dualism of the regulation creates a separate change in the relevant MFI Cooperative, where theoretically there are different arrangements between cooperatives and MFIs, both in terms of business activities, business area coverage, business permits, capital, as well as guidance, supervision, and regulation (Iskamto, 2016, 2020; Iskamto, Ghazali, & Aftanorhan, 2019; Noer, 2018).

At an economic growth rate of 5.17% in 2018, Indonesia is one of the fastest growing G20 countries. With this number, Indonesia is in fourth place after Turkey, but ahead of developed countries such as the United States, Australia, and South Korea. The direction of a country's economic growth is influenced by various sectors, one of the sectors that affects economic growth in various countries including Indonesia is the SME sector (Small and Medium Enterprises) commonly referred to as MSMEs (Micro, small and medium enterprises). MSMEs are a source of livelihood for many people and can provide them with education and low-skilled jobs and reduce poverty(Idawati & Pratama, 2020)MSMEs in various countries including Indonesia are one of the tools to encourage a strong community economy. In general, MSMEs often face unresolved traditional problems (closed-loop issues), such as labor, ownership, financing, marketing, and various governance problems. companies that make it difficult for MSMEs to do business with large companies. This can be seen from the lack of the concept of continuous innovation and inconsistent core business activities. Ultimately, this is not sufficient to guide the long-term performance of MSMEs. To improve the performance and sustainability of MSMEs in the long term, it is necessary to take the following strategic steps: expanding the knowledge of MSME stakeholders about financial management and accountability (Basriani, Susanti, Zainal, & Sofyan, 2021; Iskamto, 2020, 2021; Iskamto, Ghazali, & Afthanorhan, 2020).

One way to expand knowledge dealing with finance is to use financial literacy. Financial education is an understanding of money and financial products that a person can apply to their financial decisions making decisions about how to manage finances(Soetiono, 2018). With good financial literacy, MSMEs can develop and MSME performance can be more effective. Financial literacy allows individuals to make informed decisions about their money, minimizing the chance of being confused by financial problems(Rumbianingrum & Wijangka, 2018). The higher the financial knowledge, the better the business will be managed.

According to Research(Suardana & Musmini, 2020)said that because performance can provide information related to decision making, economic actors, the decisions to be taken improve business performance. There are several causes related to the performance of MSMEs, in addition to capital problems which often become an obstacle for business actors, namely financial literacy, problems related to financial literacy of MSME companies, most business people do not understand financial literacy (Bianchi, 2012; Saputri, Miswardi, & Nasfi, 2021).

Based on research results (Rumbianingrum & Wijangka, 2018)said that Financial Literacy has a positive effect on Financial Management and this is also influenced by several other factors not examined in this study. MSME financial education is included in the subcategory and needs to improve their financial knowledge. The low financial literacy of MSMEs in this study is influenced by several factors, namely the level of education, receipt of financial information, and the age of MSME actors.

Based on research results (Idawati & Pratama, 2020)said that there was a significant positive influence between financial literacy on the performance and sustainability of MSMEs. Based on research results(Suardana & Musmini, 2020) said that financial literacy has a positive and significant effect on the performance of MSMEs, capital has a positive and significant effect on the performance of MSMEs.

Based on research results (Lubis, 2017) say The procedure for granting credit at the Tanjung Jaya Savings and Loans Employees Cooperative has followed the standard credit granting procedures that have been set and assisted in the credit granting process at the Tanjung Jaya Savings and Loans Employees Cooperative. However, the procedure for granting credit at the Tanjung Jaya Savings and Loans Employee

Cooperative is still very simple so that there are slight deficiencies in the steps and division of functions in the credit granting procedure so that the credit granting procedure becomes easier than the standard credit granting procedure. With the ease of requirements in the loan application and low loan interest so that it becomes an attraction for borrowers to make loans.

Based on some of the initial observation phenomena found by the researcher, the researcher wishes to analyze and test the effect of financial literacy and financial management on financial performance. Micro, small and medium enterprises have a role in the Indonesian economy, many positive contributions are given by MSMEs to the GDP of the Indonesian state. It's just that we all just realized that these MSMEs have some limitations, especially related to financial literacy and have an impact on financial management, financial reports can also help the decision-making process.

Changes in the COVID-19 pandemic, namely Assets and Turnover of MFIs (Microfinance Institutions) have decreased, the decline in Assets and Turnovers in MFIs is caused by MFI members and the community experiencing difficulties in meeting the necessities of life, one of which is the financial aspect, the financial aspect is a very complicated problem. for members or the community during the COVID-19 pandemic, so the impact is that MFI members or the community must be smart in managing finances to meet their daily needs. This financial management also has an impact on members who have loans to MFIs or deposit funds in MFIs. The impact of the COVID-19 pandemic was felt by one of the LKM Ida Martunas, the impacts felt were:

1. Impact of the Covid-19 Pandemic on MFI Business and Finance. MFIs reduce business service hours, members ask for postponement of installments, decrease MFI production/sales capacity, and offer credit/marketing difficulties for other MFI products and services.
2. Impact of the Covid-19 Pandemic Customers Withdraw Deposits at MFIs.

Microfinance institution Ida Martunas patumbak was founded in 2013 until now, this financial institution was established to provide business development services to local communities through loans to members and the community as well as small business loans.

Table 1.1 Data on LKM Ida Martunas Patumbak's credit distribution.
Year 2017-2020

Tahun	Debitur (Orang)	Jumlah Pinjaman (Rp)	Debitur Bermasalah (Orang)	Kredit Bermasalah (Rp)	NPL %
2017	315	158.920,500	5	6.726.000	24%
2018	342	165.345.685	6	7.764.000	22%
2019	387	168.914.299	7	9.180.000	18%
2020	401	175.327.313	9	17.130.000	10%

Based on table 1.1 above, it is known that there was an increase in Ida Martunas LKM debtors from 2017 to 2020, this increase was in line with the increase in the number of loans at Ida Martunas LKM from 315 debtors in 2017, an increase of 27 debtors in 2018, and in 2019 it increased again by 45 debtors, in 2020 it increased again by 14 customers. Of the total number of debtors, LKM Ida Martunas has always experienced a fairly good increase in customers, especially in 2020, where Indonesia is experiencing an economic crisis due to the impact of Covid-19, behind the impact of Covid-19, many people have been laid off from companies and find it difficult to find work. Therefore, people switch professions to open businesses, but because of very minimal capital, people choose to borrow capital from MFIs, With this, the number of MFI customers is increasing. But with the increase in debtors at Ida Martunas LKM, there is an increase in problematic debtors, this is due to the pandemic period, where customers experience a decrease in income so that credit payments become stuck.

Like the microfinance institution Ida Martunas, it has experienced several problems, namely unstable financial reports and increases and decreases, as well as bad credit and financing, so that if there is a default in credit or financing, it will cause losses and have a wide impact if not addressed immediately. The internal and external factors that affect credit and financing failures are the customer's intention,

administration, disaster, season. In the case of a debtor breaking his promise to pay interest, an unwanted decline in credit quality occurs. So that this case can take legal action before it suffers a much larger amount of loss. This shows that financial management has not been fully good. With this background,

METHOD

This research was conducted at Ida Martunas LKM for the 2017-2020 period. This study uses secondary data in the form of financial statements and other information related to this research. The variables observed in this study consisted of independent variables consisting of financial literacy, financial management, and capital. While the performance of SMEs as the dependent variable. Collecting data using documentation studies and library research. The data analysis model used simple linear regression, with the equation model $Y= a+b_1X_1+b_2X_2+b_3X_3+e$. Tests were carried out using validity and reliability tests, classical assumption tests, coefficients of determination, simultaneous and partial tests, and data processing using the SPSS v.20 program.

RESULTS AND DISCUSSION
Normality test

Table 1. One Sample KS Test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		42
Normal Parameters[a,b]	Mean	0E-7
	Std. Deviation	.07947969
Most Extreme Differences	Absolute	.078
	Positive	.078
	Negative	-.043
Kolmogorov-Smirnov Z		.507
Asymp. Sig. (2-tailed)		.959

a. Test distribution is Normal.
b. Calculated from data.

Source: Processed Data (SPSS)

In the table above, it can be seen that the results of the one sample KS test got a significance value of 0.959 > 0.005, then the data distribution is normal.

Linearity Test Results
a. X1 Linearity Test Against Y

Table 2. Linearity Test Results X1 Against Y

AMOVA Table

			Sum of Squares	df	Mean Square	F	Sig.
Kinerja Keuangan * Literasi Keuangan	Between Groups	(Combined)	.005	5	.001	.587	.712
		Linearity	.001	1	.001	.637	.430
		Deviation from Linearity	.004	4	.001	.574	.683
	Within Groups		.056	36	.002		
	Total		.061	41			

Source: Processed Data (2021)

Judging from the significant value above between financial literacy variables on MSME financial performance (0.683 > 0.05), it can be assumed that financial literacy has a linear relationship.

b. X2 Linearity Test Against Y

Table 3. Linearity Test Results X2 Against Y

AMOVA Table

			Sum of Squares	df	Mean Square	F	Sig.
Kinerja Keuangan * Pengelolaan Keuangan	Between Groups	(Combined)	.007	7	.001	.597	.754
		Linearity	.001	1	.001	.356	.555
		Deviation from Linearity	.006	6	.001	.637	.700
	Within Groups		.054	34	.002		
	Total		.061	41			

Source: Processed Data (2021)

Judging from the significant value above, the financial management variable on financial performance has a significant value (0.700 > 0.05), it can be assumed that financial management has a linear relationship.

c. X3 Linearity Test Against Y

Table 4. Linearity Test Results X3 Against Y

ANOVA Table

			Sum of Squares	df	Mean Square	F	Sig.
Kinerja Keuangan * Permodalan	Between Groups	(Combined)	.060	23	.003	151.015	.000
		Linearity	.060	1	.060	3493.366	.000
		Deviation from Linearity	.000	22	.000	.590	.881
	Within Groups		.000	18	.000		
	Total		.061	41			

Source: Processed Data (2021)

Judging from the significant value above, the capital variable on financial performance has a significant value (0.881 > 0.05), it can be assumed that capital and financial performance have a linear relationship.

2. Multiple Linear Regression Test Results

Table 5. Multiple Linear Regression Test Results

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	15.482	.328		47.241	.000
	Literasi Keuangan	-.068	.402	-.012	-.170	.866
	Pengelolaan Keuangan	-.098	.541	-.013	-.181	.858
	Permodalan	-68.624	1.441	-.995	-47.621	.000

a. Dependent Variable: Kinerja Keuangan

Source: Processed Data (2021)

Based on the data in the table above, the results of the regression equation can be obtained as follows:

$$Y = 15,482 + (-0.068X1) + (-0.098X2) + (-68,624X3)$$

In the multiple linear regression model above, the financial performance constant value is 15,482, meaning that if the value of the independent variable is financial literacy, financial management, and capital is 0, then the value of the dependent variable is 15,482. The regression coefficient for the financial literacy variable is negative, this indicates that if there is an increase in financial literacy by 1 unit, then financial performance will decrease by 0.068 units. The regression coefficient of the financial management variable is negative, this indicates that if there is an increase in financial management by 1 unit, the financial performance will decrease by 0.098 units.

Hypothesis testing
a. Coefficient of Determination

Table 6. Coefficient of Determination Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.992[a]	.984	.983	.08256

a. Predictors: (Constant), Permodalan, Pengelolaan Keuangan, Literasi Keuangan

b. Dependent Variable: Kinerja Keuangan

Source: Processed Data (2021)

The coefficient of determination obtained at 0.984 indicates that the variables of financial literacy, financial management and capital are able to explain 98.4% of the variation that occurs in financial performance while 1.6% is explained by other variables not examined in this study.

b. Simultaneous F Test

Table 7. Simultaneous Test Results (Test F)

ANOVAª

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	15.869	3	5.290	776.118	.000ᵇ
	Residual	.259	38	.007		
	Total	16.128	41			

a. Dependent Variable: Kinerja Keuangan
b. Predictors: (Constant), Permodalan, Pengelolaan Keuangan, Literasi Keuangan

Source: Processed Data (2021)

Based on the table above, it can be seen that the value of Fcount is 776.118 > from Ftable which is 2.58 (dk numerator = k = number of independent variables = 1 and dk denominator = nk-1 = 48-3-1 = 44, then Ftable = 2.58) and significant value 0.000 < from the alpha value of 0.05. So the decision taken by H0 is rejected, H4 is accepted. With the acceptance of H4 shows that the independent variables Financial Literacy (X1), Financial Management (X2) and Capital (X3) can explain the diversity of the dependent variable Financial Performance (Y). Thus, the variables of financial literacy, financial management, and capital simultaneously have a significant and significant effect on the financial performance of Ida Martunas MFI.

c. Partial Test (t Test)

Table 8. Partial Test Results (t Test)

Coefficientsª

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	15.482	.328		47.241	.000
	Literasi Keuangan	-.068	.402	-.012	-.170	.866
	Pengelolaan Keuangan	-.098	.541	-.013	-.181	.858
	Permodalan	-68.624	1.441	-.995	-47.621	.000

a. Dependent Variable: Kinerja Keuangan

Source: Processed Data (2021)

Based on the table above, it can be seen that:

1. The tcount for the financial literacy variable (-0.170) ttable 2.051368 and the significant value is 0.866 > from alpha 0.05, then H0 is accepted. H1 is rejected, thus partially the financial literacy variable has no effect and is not significant on financial performance.
2. The value of tcount for the financial management variable (-0.181) ttable 2.051368 and a significant value of 0.858 > from alpha 0.05, then H0 is accepted. H2 is rejected, thus partially the financial management variable has no effect and is not significant on financial performance.
3. The value of tcount for the capital variable (-47.621) ttable 2.051368 and a significant value of 0.000 < from alpha 0.05, then H0 is accepted. H3 is rejected, thus partially the capital variable has a negative and significant effect on financial performance.

CONCLUSION

The results of testing the first hypothesis, namely the coefficient of determination, show that the coefficient of determination obtained is 0.984 or 98.4% indicating that the variables of financial literacy, financial management, and capital are able to show variations that occur in the financial performance of Ida Martunas MFI, while the remaining 1.6% is explained by the variable others that were not investigated in this study. The results of testing the second hypothesis, namely the simultaneous test (F test) shows that the Fcount value is 776,118 > from Ftable, which is 2.58 and the significant value is 0.000 < from the alpha value of 0.05. Then the decision taken H0 is rejected H4 is accepted, meaning that financial literacy, financial management, and capital simultaneously have a significant and significant effect on financial performance at Ida Martunas LKM. The results of testing the third hypothesis, namely the partial test (t test) show that: Financial literacy tcount (-0.170) ttable 2.051368 and a significant value of 0.866 > from alpha 0.05, then H0 is accepted H1 is rejected, thus partially the financial literacy variable has no effect and does not significant to financial performance. Financial literacy has no effect and is not significant on financial performance with a coefficient (-0.068)

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