



Analysis of The Influence of Digital Financial Literacy Understanding on The Profitability of Small and Medium Micro Enterprises

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Abstract

The objective of this study is to impact the financial knowledge of micro, small, and medium firms in order to improve their profitability. This study utilizes primary data obtained through interviews and questionnaires delivered to participants. This study is based on causal research. The research focuses on Micro, Small, and Medium Enterprises (MSMEs). This study employs non-probability sampling methods. Purposive sampling is the approach utilized. The study used the multivariate structural equation model approach. The research results indicate a notable correlation between financial attitude, financial conduct, financial knowledge, and profitability. Financial attitude significantly influences profitability, with higher levels of financial attitude leading to increased profitability. Furthermore, improved financial behavior positively impacts profitability, indicating that those with better financial habits can attain higher levels of profitability. Financial knowledge significantly impacts profitability, with better financial understanding leading to increased profitability. Thus, improving financial attitude, financial behavior and financial knowledge can increase individual or company profitability.

Keywords: Financial Literacy, Financial Behavior, Financial Attitudes, MSMEs.

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1. Introduction

Indonesia is a developing country in Asia with a robustly growing economy. Indonesia successfully navigated through the monetary crisis. Indonesia's overall economic power is rooted in the advancement and expansion of the micro, small, and medium enterprises (MSME) sector, which forms the foundation of the national economy. MSME regulations were established and approved to assist MSMEs in Indonesia. Nevertheless, the handling of MSMEs in Indonesia is considered to be inadequate [1]. Indonesia is the fourth-ranked country in ASEAN, following Singapore, Malaysia, and Thailand. Thus, effective management of the team focused on enhancing regional financial access is essential for improving people's financial literacy. Financial literacy is crucial for micro, small, and medium enterprises (MSMEs) in Indonesia [2]. Financial literacy is a crucial life skill that significantly influences the well-being of individuals, families, and the broader economy. In the past twenty years, both industrialized and emerging nations have shown growing interest in the financial literacy of their populations. Good financial literacy will provide understanding for MSME players in making business decisions, including choosing complex financial products [3]. MSME players need to practice sound financial management in order to manage the modest amount of capital necessary for the expansion and improvement of their business lines. MSME players must at least master the basic financial concepts in order to avoid financial problems and be able to prioritize the financial needs of their business [4].

Financial literacy refers to the capacity of individuals involved in business to efficiently handle and control their financial resources to attain financial well-being that aligns with their life objectives. Research has shown that comprehension and expertise in financial literacy impact financial decision-making [5]. Individuals with financial literacy has the capacity to comprehend financial issues and make suitable and efficient financial choices. A very profitable corporation can earn substantial money within a specific period, based on its sales, assets, and capital stock. Understanding the factors that influence profitability is crucial for managers to create successful plans that will enhance their companies' profitability [6]. Profitability is attained through practices like efficient corporate governance, marketing strategies for high-quality products, establishing strong consumer awareness, fostering customer loyalty, conducting research and development, and implementing sound financial

management and accounting practices to increase profits [7]. Financial management is a crucial aspect of managing money. Financial management commences with planning and concludes with control [8]. Financial literacy in Indonesian society is now at a low level. Low financial literacy can be caused by the ability to make the wrong financial plans, which causes bias [9]. People cannot achieve prosperity at the right age and then continue to decline when they enter an age that is no longer productive. The consequence of the low financial literacy of the Indonesian people is that national financial stability becomes vulnerable. This is because the less people save, the less development and investment financing can be used for national economic development. When the community's financial literacy is at a good level, development can run smoothly [10]. The higher the investment and effective economic transactions from the community, the more they contribute to national development, including creating income equality and justice [11]. MSME players really need an understanding of financial literacy. The MSME sector is fundamental to the nation's economy, which makes a direct contribution in the form of employment, equal distribution of income and welfare, reducing the number of unemployed, participating in tax contributions, and providing opportunities for local products to penetrate the market. wider. Good financial literacy can support all MSME activities [12].

Apart from financial behavior, there is another important variable to research and consider, namely financial attitude [13]. Financial attitude is a significant factor and has a positive relationship to business actors' financial management practices [14]. Financial mindset involves creating value by applying financial principles in decision-making and resource management. Providing sufficient information enhances financial attitudes. Prior studies have demonstrated that financial literacy can be promoted by developing suitable financial attitudes related to risk tolerance, education, and time perspective [15]. The financial attitudes of SME managers impact their ability to obtain financing and expand capital, as well as other business operations [16]. He stated that successful individuals possess financial acumen, enabling them to maintain long-term savings and future-oriented investments. Assess the financial literacy of micro and small enterprise (MSE) owners, specifically concentrating on their financial knowledge and skills [17]. Financial literacy for business actors is the ability to make efficient financial decisions in accordance with business goals and future projections. Financial literacy can also provide the ability to choose and use appropriate financial products for business financial management [18]. Financial literacy is also differentiated based on the gender of the business actor. Financial decision-making turns out to be closely related to the gender of the business actor [19]. A man has a higher level of financial literacy than a woman. The logical explanation of this phenomenon is that men have logic and emotions and tend to be more careful in every decision. They also have the ability to understand things easily, so men's financial literacy abilities tend to be better [20]. On the other hand, financial literacy is also related to age and life maturity, those who are more mature have more experience related to finance and usually have a better understanding of financial literacy. So that people of mature age have more financial literacy than teenagers. Another variable that influences financial literacy is education. People with higher education have the potential to master financial literacy better. Education plays an important role in improving financial logic, financial behavior and the ability to understand financial products [21]. Responsibility also influences financial behavior. This responsibility is related to a person's ability to accept risks that may occur in their financial management. The influence of the internal environment, such as the extended family, greatly influences the process of forming financial behavior.

2. Research Methods

Research data are facts or information conveyed to or obtained by researchers from the environment they wish to research. This research uses primary data collected from interviews and questionnaires distributed to respondents. This research is causal research. This causal research uses a quantitative approach related to the analytical interpretation of numbers. The population in this research are MSMEs. This research uses a nonprobability sampling technique, where this technique takes samples using predetermined criteria. The technique used is purposive sampling because the researcher has made considerations and desired characteristics. Descriptive analysis in this research explains the general picture related to respondents' understanding of the research variables. Descriptive analysis is seen through the average of the answer results and the range that has been analyzed. The research uses the multivariate structural equation model technique. This technique is used after calculating the questionnaire results, data processing and analysis. The initial stage of this research is a partial least squares structural equation model analysis. PLS-SEM in this research is divided into five stages of analysis, which can influence the next stages.

3. Results and Discussion

With a coefficient value of 0.54, the results of testing the first hypothesis demonstrate a positive relationship between the financial attitude and profitability measures. This demonstrates that the likelihood of profitability in an MSME business increases with an individual's level of financial attitude. This result is in line with earlier studies that found a favorable correlation between financial attitude and MSMEs' profitability. Aside from that,

the study's findings are consistent with prior studies demonstrating the beneficial impact of a sound financial mindset on MSMEs' performance and, eventually, their ability to generate higher profits. Thus, good awareness and understanding of the importance of a positive financial attitude are very important for MSME players. Improving their financial attitude can be the key to optimizing their profitability and overall business performance. This can be done through appropriate training, education and support so that they can understand and implement sound financial principles in their daily operations. For further research, it is recommended to consider other variables that can influence the relationship between financial attitude and MSME profitability, such as support from the surrounding environment, government policy, or other economic factors. Apart from that, research can also be focused on developing strategies or programs that can improve the financial attitude of MSME players so that they can have a more significant impact on their profitability and business performance.

The research findings indicate that MSMEs possess a sound financial mindset, which positively impacts their profitability. The indicator that most influences financial attitude is the F3 indicator, with a t-value of 36.6. This shows that many MSME players already have a good orientation towards the future in managing their money. On the other hand, the indicator that has the least influence on financial attitude is the F1 indicator, with a t-value of 25.5. These results indicate that MSME players need to increase control over their monthly expenses to increase business profitability. The results of this research reveal that MSMEs have a good financial attitude and a positive orientation towards the future. This attitude encourages better decision-making and better business performance in the future because it has been prepared from the start. Thus, this good financial attitude will maintain business profitability and encourage sustainable MSME business growth. To further increase the profitability of MSME businesses, it is recommended that MSME players continue to improve their financial attitudes, especially in terms of controlling monthly expenses. Apart from that, it is also important to continue to provide training and assistance to MSME players so that they can continue to develop good financial attitudes and a positive orientation towards the future.

With a coefficient value of 0.36, the results of testing the second hypothesis demonstrate that there is a unidirectional association between the financial behavior variables and profitability. This demonstrates that the likelihood of profitability in an MSME business increases with an individual's level of financial conduct. This finding is supported by a t-value of 3.6, which shows that financial behavior and profitability have a substantial association. This result is consistent with earlier studies that found that financial behavior positively impacts MSMEs' success, suggesting that modifications in financial behavior can boost MSMEs' profitability. These outcomes are also in line with earlier research, which demonstrates that financial conduct significantly affects MSMEs' overall success. Thus, it is important for MSME players to pay attention to and improve their financial behavior in order to optimize their profitability and business performance. Positive financial behavior change can be the key to increasing the success of MSMEs and achieving sustainable growth. Continuous efforts are needed, including education, training and mentoring, so that MSME players can develop better financial behavior and increase the profitability of their businesses.

The study's findings support the notion that MSMEs exhibit generally sound financial behavior since it increases their company's profitability. But in order to boost profitability even further, it must be further improved. The most significant indicator, with a t-value of 63.6, is saving practices. This demonstrates how saving for unforeseen expenses can help MSMEs become more profitable. Budgeting and planning, on the other hand, had the least influence, with a t-value of 18.9. This implies that in order to boost their companies' profitability, MSME participants need to do a better job of planning and budgeting. The bulk of MSMEs exhibit sound financial conduct, particularly with regard to planning, saving, budgeting, and recordkeeping, according to this research. This is important because it can help maintain the smooth flow of financial transactions in the business and ensure that profits can be well maintained. To further increase the profitability of MSME businesses, it is recommended that MSME players continue to improve their financial behavior, especially in terms of budgeting and planning. Apart from that, it is also important to continue to provide training and assistance to MSME players so that they can continue to develop good financial behavior and optimize the profitability of their businesses.

With a coefficient value of 0.34, the third hypothesis' test results demonstrate a positive correlation between profitability and financial literacy. This suggests that the likelihood of profitability in an MSME business increases with an individual's level of financial literacy. This finding is supported by a t-value of 3.5, which shows that financial knowledge and profitability have a substantial association. This finding is in line with previous research, which also shows that knowledge about finance has a significant influence on the profitability of MSMEs. Good knowledge of finance allows MSME owners or managers to make better financial decisions, which in turn can increase the company's profitability. Thus, it is important for MSME players to continue to improve their financial knowledge in order to optimize the profitability of their businesses. Training and education on financial management can be an effective step in improving their financial knowledge and, ultimately, increasing business profitability.

Based on the results of existing research, many MSMEs already have basic financial knowledge, but the knowledge they have must continue to be improved so that profitability also increases. Based on research results, indicators regarding risk and return have the highest influence on financial knowledge, with a t-value of 37.6, which means that many MSMEs know that if there is a high risk, they will also get a high return. Meanwhile, the indicator that has the lowest influence on financial knowledge is diversification, with a t-value of 16.1, which means that a lack of knowledge regarding asset distribution is needed to increase profitability and reduce risks in business. Because the average response is fairly high, the research's findings indicate that most respondents have sufficient basic financial understanding. Knowledge about diversification, risk, return and inflation will certainly influence decision-making in running a business. The basic financial knowledge possessed by MSMEs certainly influences good and effective financial decision-making, which will influence the profitability of the MSMEs being run.

From the results of the research conducted, it is proven that financial knowledge influences the profitability of MSMEs. Therefore, researchers will make efforts to increase profitability through increasing financial knowledge, with a focus on indicators K1 and K2 related to diversification. Efforts that can be made are to provide additional knowledge to MSME players about the importance of diversifying their assets into several types of businesses. This is expected to increase income and reduce the risks that can occur compared to just having one business. In addition, the K3 indicator, which focuses on risk and return, also needs to be considered. One possible endeavor is to furnish MSME participants with more information on the correlation between risk and return levels. They must realize that their potential returns increase with the amount of risk they incur. It is intended that by giving MSME participants more information and insight on asset diversification and the correlation between risk and return, they will be able to better manage their companies and eventually boost their profitability.

The K4 indicator, which focuses on knowledge about inflation, requires efforts to increase understanding for MSMEs. Providing education about inflation to MSMEs is very important because inflation affects all aspects of life, including the businesses they own. By understanding inflation, MSMEs can take appropriate steps in managing their finances to anticipate the impact of changes in prices caused by inflation. Researchers propose a number of initiatives to boost profitability through financial behavior in light of study findings that indicate the financial behavior variable effects the profitability of MSMEs and has a relatively high average. For the B1 indicator, which focuses on budgeting and planning, MSMEs need to continue to budget and plan well. This is important to maintain and increase business profitability because, with good budgeting and planning, MSMEs can manage their finances more effectively and efficiently and can plan appropriate steps for sustainable business growth.

For the B2 and B3 indicators, which focus on saving, efforts that can be made are that MSME players need to continue saving as a step to reduce dependence on credit and also to prepare for emergencies. Saving regularly can help MSMEs manage their finances better, reduce interest charges from credit, and provide reserve funds that can be used in emergency situations. This will have a positive impact on business profitability because business finances will be better maintained and more stable. Meanwhile, for the B4 indicator, which focuses on bookkeeping, efforts that can be made are that MSME players must carry out financial records neatly and regularly. By having good bookkeeping, MSMEs can monitor cash inflows and outflows, identify inefficient sources of expenditure, and clearly understand the financial position of the business. This will help MSMEs make more appropriate and effective financial decisions, which will ultimately contribute to increasing business profitability.

Based on research results that show that financial attitude has the greatest influence on the profitability of MSMEs, it is very important to maintain and develop this financial attitude so that profitability is maintained. For the F1 indicator, which shows good control over monthly expenses, efforts that can be made are that MSMEs must continue to control their monthly expenses. By exercising good control, MSMEs can manage their finances more efficiently and effectively, so that business profitability can be maintained and even increased. Meanwhile, for indicators F2, F3, and F4, which show orientation towards the future, efforts that can be made are that MSME actors need to continue to be future-oriented in running their businesses. They need to plan appropriate steps for sustainable business growth, as well as consider external factors that can influence business sustainability. By being future-oriented, MSMEs can make better strategic decisions, which will ultimately have a positive impact on business profitability.

4. Conclusion

From the research findings, it can be inferred that financial behavior, attitude, and knowledge have a major impact on profitability. First, there is a strong positive correlation between financial attitude and profitability; that is, the more an individual's financial attitude, the greater the potential for success. Furthermore, financial activity has a noteworthy positive impact on profitability, indicating that an individual's potential to reach higher levels of profitability is directly correlated with their level of financial behavior. Third, there is a strong

correlation between financial knowledge and profitability; that is, the greater an individual's financial understanding, the greater the potential for success. It is noteworthy that enhancing one's financial conduct, attitude, and knowledge can positively affect an individual's or an organization's profitability. Therefore, to increase profitability, individuals or companies need to pay attention to and develop these aspects. This can be done through financial education and training, fostering good financial behavior, and increasing understanding of finance and markets. Thus, these efforts are expected to improve the financial performance and profitability of individuals or companies as a whole. To improve MSMEs' ability to manage finances, it is recommended to provide financial literacy training on a regular basis. This is expected to help them utilize financial resources more effectively, increase profits, and ultimately develop their business so that they can compete in national and international markets. In addition, for further research, it is recommended to include other variables that can influence MSME profitability so as to provide a complete and more accurate picture. The MSME business categories studied should be more homogeneous so that it is easier to identify the influence between one and another. To obtain more in-depth data, it is recommended to conduct surveys and distribute questionnaires directly to MSME players so that they can obtain more detailed and in-depth feedback. By making these efforts, it is hoped that MSMEs can improve their ability to manage finances and develop their businesses sustainably.

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