The Influence of Financial Literacy and Financial Recording on SMEs Performance In Lamongan

Kartika Apriliani Pratama[1], Achmad Kautsar [2], Tias A. Indarwati[3]
Universitas Negeri Surabaya [1,2,3]
E-mail: achmadkautsar@unesa.ac.id

Abstract.
East Java Province is one of the provinces that has the largest number of MSMEs in Lamongan. If seen from two factors (internal and external), its development is still experiencing various obstacles in efforts to improve its performance, especially in small industries. The aim of this research is to find out how financial literacy and financial recording influence the performance of SMEs in Lamongan. This research is a type of causality research using quantitative methods. The data obtained came from the results of a questionnaire and was analyzed using SPSS. This research uses primary data sources and uses saturated sample sampling. The research results show that financial literacy is not significant, while financial recording has a significant positive effect.

Keywords: Financial Literacy; Financial Recording; SME Performance

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) are productive businesses owned by individuals or entities that meet the criteria set out in Law No. 20 of 2018. The presence of MSMEs in Indonesia has proven to be an effective economic driver in poverty alleviation and an economic savior post-crisis, as evidenced during the 1997-1998 monetary crisis. During that period, MSMEs were able to survive and continued to contribute to reducing unemployment and increasing job opportunities (Baholli *et al.*, 2015).

Currently, Micro, Small, and Medium Enterprises (MSMEs) are experiencing a positive trend with their numbers increasing annually. According to data from the Ministry of Cooperatives and SMEs, MSMEs contribute 60% to the National Gross Domestic Product

(GDP), amounting to approximately IDR 8,573 trillion per year. MSMEs also have the capacity to absorb a significant amount of labor, reduce unemployment, and improve societal welfare (Permana, 2017). This demonstrates the substantial potential for MSMEs to be further developed to make a greater contribution to Indonesia's economy.
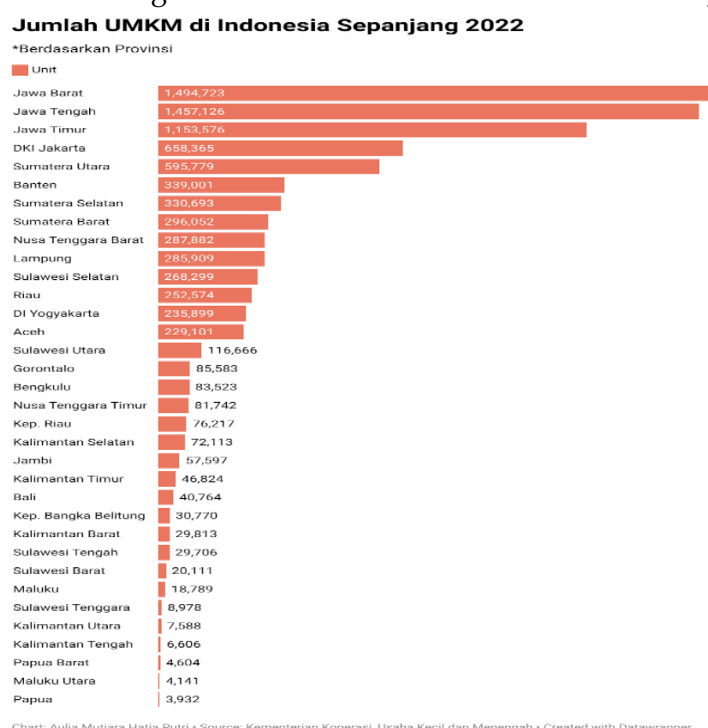
Source: Kementerian Koperasi dan UKM (processed by CNBC, 2023)

Figure 1. Chart of Provinces with the Highest Number of Micro and Small Enterprises in 2022

Figure 1 illustrates the number of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia throughout 2022, categorized by province. West Java has the highest number of MSMEs with 1,494,723 units, followed by Central Java with 1,457,126 units, and East Java with 1,153,576 units. Other provinces with significant MSME counts include DKI Jakarta (685,365 units) and North Sumatra (559,777 units). Meanwhile, the province with the fewest MSMEs is Papua with 3,932 units. This data indicates a varied distribution of MSMEs across Indonesia, with the highest concentration in the Java provinces, which serve as the national economic hubs.

Given the importance of MSMEs in driving economic growth and employment absorption, local governments strive to develop MSMEs, including in Lamongan Regency. In Lamongan Regency, there are 255,347 business units, comprising 254,206 MSMEs and 1,141 cooperatives (Dinas Koperasi dan Usaha Mikro Kabupaten Lamongan, 2023). MSMEs have significant potential to increase local income and meet daily needs. However, MSMEs in Lamongan face various internal and external challenges. Internally, MSMEs often struggle with capital, production, marketing, and human resources. Externally, issues frequently arise from developers and MSME mentors, as well as the limited financial knowledge of MSME actors, leading to ineffective financial management.

Bank Indonesia (2012), stated that the financial knowledge of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia is low. Consequently, the President of the Republic of Indonesia launched the National Financial Literacy Strategy (SNLKI) on November 19, 2013, as part of The Trilogy of Policy Instruments to enhance market confidence and ensure a level

playing field between consumers and the financial services industry. Good financial literacy can assist MSMEs in making informed decisions to improve their business performance. Previous studies have shown a positive relationship between financial literacy and company performance (Muraga & J, 2015; Lusardi & P., 2012; Dahmen & Rodríguez, 2014). Therefore, it is crucial for MSMEs to improve their financial literacy and record-keeping to optimize business management and enhance credit repayment capabilities (Cook & Nixson, 2000; Ongesa *et al.*, 2014). Based on this background, this study will examine the influence of financial literacy and record-keeping on the performance and credit repayment rates of MSMEs in Lamongan Regency.

The distribution of formal and informal industries in Lamongan Regency indicates that Mantup Subdistrict has the highest number of industries, totaling 3,462 units, while Sarirejo Subdistrict has the fewest with 314 units. Overall, there are 4,608 formal industries and 38,320 informal industries, amounting to a total of 42,928 industrial units. This data highlights the significant role of small and informal industries in the local economy. Research on financial literacy and financial record-keeping shows varying and often contradictory results, creating an interesting research gap. Several studies, such as those by Aribawa (2016) and Rahayu, A. Y. (2017), found that financial literacy significantly impacts MSME performance. Conversely, studies by Purwaningsih & Haryono (2019) and Kumalasari & Haryono (2019) concluded that financial literacy does not have a significant impact, while Alex (2015) showed that financial record-keeping significantly influences MSME performance. Therefore, this study, titled "The Influence of Financial Literacy and Financial Record-Keeping on Performance and Credit Return Rates of MSMEs in Lamongan Regency," aims to address these varying perceptions and methodologies.

1.1 Performance of Micro, Small, and Medium Enterprises (MSMEs)

According to Mulyadi (2007), the performance of SMEs is the achievement of business goals through established strategies. This performance reflects the outcomes of company activities accomplished by individuals or groups in accordance with the tasks defined by the company's standards within a specific period (Mutegi *et al.*, 2015). However, measuring the performance of SMEs faces various challenges, such as resource limitations in financial understanding and labor, which make it difficult to assess (Dwitra, 2016).

Ali (2003), explains that the performance measurement of SMEs often focuses solely on complex financial indicators, which do not fully reflect the actual business conditions. Furthermore, the performance measurement methods commonly used are more suitable for large, well-structured corporations. Therefore, there is a need for a more appropriate and comprehensive approach to measure SME performance that can accurately reflect their true state and aid in more effective decision-making.

1.2 Financial Literacy

Financial literacy is a fundamental necessity for individuals to avoid financial problems. Financial issues do not solely arise from low income; they can also stem from poor financial management practices, such as improper credit management and insufficient financial planning. Financial literacy is defined as an individual's ability to understand, obtain, and evaluate relevant information for decision-making and to accept its financial consequences (Mason & Wilson, 2000). According to Lusardi & P. (2012), financial literacy encompasses knowledge and skills in managing money to enhance one's standard of living. Furthermore,

the Financial Services Authority (O.J.K., 2016) asserts that financial literacy influences an individual's attitudes and behaviors in managing finances and making financial decisions to achieve well-being.

Nababan & Sadalia (2012) explain that financial literacy encompasses six aspects: basic financial knowledge, cash management, credit and debt management, savings, investment, and risk management. Remund (2010) adds five domains of financial literacy, which include knowledge of financial concepts, the ability to communicate about financial concepts, the ability to manage personal finances, the ability to make financial decisions, and the confidence to plan for future finances. In conclusion, financial literacy constitutes foundational knowledge of financial management concepts that influence the actions of individuals or organizations in decision-making processes aimed at achieving well-being.

1.3 Financial Recording

Financial recording is the process of inputting financial data into a recording system, such as a ledger, where the data can be documented by writing on the pages of the ledger. This process involves the periodic collection of data regarding total turnover and income, which serve as the basis for calculating the tax owed (Wijono, 2005). Proper financial recording ensures that all financial transactions are accurately and correctly documented, enabling the company to track cash flow, manage taxes, and make informed financial decisions.

According to Hery (2015), there are five key indicators of sound financial reporting: understandability, relevance, reliability, comparability, and consistency. Financial statements must be presented in a manner that is easily comprehensible to users, enabling them to grasp the information conveyed and interpret it accurately. The presentation of relevant financial statements assists users in evaluating past, present, or future events. The information contained within financial statements must be reliable, free from material misstatements and misleading elements, thereby ensuring trustworthiness for users. Furthermore, financial statements should be comparable with previous financial reports or with those of other entities to facilitate effective analysis. Consistency in the presentation of financial statements across periods ensures that the data remains accurate and informative over time.

1.4 The Influence of Financial Literacy on the Performance of Micro, Small, and Medium Enterprises (MSMEs)

Financial literacy is a critical aspect of financial decision-making that influences the performance of micro, small, and medium enterprises (MSMEs). The ability of business owners to manage their financial resources is essential, as it has a direct impact on the performance and sustainability of their enterprises (Dahmen & Rodríguez, 2014). According to the Theory of Planned Behavior, financial literacy enables business owners to think rationally and utilize information systems to make informed financial decisions. Research by Fatoki (2014) indicates that low levels of financial literacy negatively affect corporate performance. Additionally, Adomako & Danso (2014) found that high levels of financial literacy positively influence corporate performance, facilitate access to financing, and ensure smooth credit repayment.

H1: There is an influence of financial literacy on the performance of micro, small, and medium enterprises (MSMEs)

1.5 The Influence of Financial Recording on the Performance of MSMEs

Financial recording is the process of entering financial data into recording media such as ledgers or computer systems, aimed at systematically collecting data regarding income receipts as a basis for tax calculation (Wijono, 2005). A common error made by small and medium-sized enterprises (SMEs) is the commingling of business funds with personal finances, which complicates the separation of personal and business expenditures. Research conducted by Jeni (2014) indicates that a lack of knowledge regarding financial recording adversely affects the performance of SMEs. Meanwhile, Harahap (2014) and Nurlela (2015) assert that the ability to prepare financial statements does not have a significant impact on SME performance, as the knowledge of SME practitioners regarding financial statement preparation remains very low and inadequate.

H2: There is an influence of Financial Recording on the performance of micro, small, and medium enterprises (MSMEs)
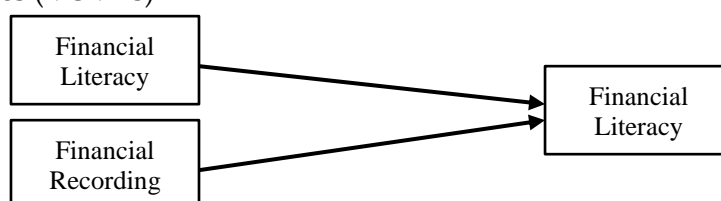

Figure 2. Framework

2. Research Method

This study employs a descriptive methodology with quantitative and causal research approaches. The research aims to uncover the truth about existing phenomena by analyzing data using specific techniques, beginning with data collection. The population for this study comprises all types of micro-enterprises located in Lamongan District. The sampling method employed is saturated sample are 60 SMEs. Data analysis techniques in this study involve multiple linear regression and classical assumption tests, which include normality testing, multicollinearity testing, and heteroscedasticity testing. Subsequently, the data are examined through hypothesis testing using the F-test, t-statistic test, and coefficient of determination.

3. Results and Discussion

3.1 Result

A multiple linear regression model is considered adequate when it satisfies the assumptions of data normality and is constrained by classical statistical assumptions, specifically multicollinearity and heteroscedasticity. The assumption tests employed in this study include the following.

Table 1. Results of The Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
Financial Literacy	0,772	1,295
Financial Recording	0,772	1,295
a. Dependent Variable: Performance of MSMEs		

Source: IDX data processing (2024)

To determine the presence of multicollinearity symptoms, the Variance Inflation Factor (VIF) was employed. Table 1 presents the results of the multicollinearity test, indicating that each variable X and Z (Performance of MSMEs) exhibits a tolerance value greater than 0.1 and a VIF value less than 10. These results suggest that the regression model in this study does not exhibit signs of multicollinearity.

Table 2. Results of The Heteroskedasticity Test on The Performance of MSMEs Variable

	Model	t	Sig.
1	(Constant)	1,614	0,109
	Financial Literacy	0,640	0,524
	Financial Recording	-0,514	0,609
a. Dependent Variable: Performance of MSMEs			

Source: IDX data processing (2024)

One of the methods employed to determine the presence of heteroskedasticity symptoms in the research regression model is the Glejser Test. The Glejser Test utilizes the absolute residual values (AbsUi) from the regression model. Table 2 demonstrates that all independent variables X and Z (Performance of MSMEs) exhibit significance values greater than 0.05. Thus, it can be concluded that heteroskedasticity is not present in this regression model.

Table 3. Results of The F Statistical Test on The Performance Variable of SMEs

ANOVA[a]			
	Model	F	Sig.
1	Regression	4,892	0,009[b]
	Residual		
	Total		
a. Dependent Variable: Performance of MSMEs			

Source: IDX data processing (2024)

Table 3 presents the results of the ANOVA (Analysis of Variance) analysis conducted to evaluate the impact of independent variables on the performance of SMEs (Small and Medium Enterprises) as the dependent variable. The results indicate an F-value of 4.892 with a significance level (Sig.) of 0.009. This higher F-value suggests a significant variability among the compared groups. The significance level below 0.05, specifically 0.009, indicates that the results are statistically significant, with less than a 1% probability that these findings occurred by chance. Therefore, it can be concluded that the regression model employed has a significant effect on the performance of SMEs, underscoring that the variables tested within this model substantially influence SME performance.

Table 4. Results of the T-test on The Performance Variable of SMEs

	Model	Coefficient	Std. Error	t-Statistic	Sig.
1	(Constant)	27,467	3,361	8,172	,000
	Financial Literacy	,027	,078	,350	,727
	Financial Recording	,265	,103	2,564	,012
a. Dependent Variable: Performance of MSMEs					

Source: IDX data processing (2024)

Based on the results of the regression analysis presented in Table 4, it is evident that the financial literacy variable has a coefficient of 0.027 with a significance value of 0.727, indicating that the impact of financial literacy on the performance of micro, small, and medium enterprises (MSMEs) is not significant. In contrast, the financial record-keeping variable has a coefficient of 0.265 with a significance value of 0.012, which indicates that financial record-keeping has a positive and significant effect on the performance of MSMEs. The model constant of 27.467 indicates that when both independent variables are equal to zero, the performance of MSMEs remains at this baseline value. The t-statistic for financial record-keeping is also notably high at 2.564, further corroborating the evidence that financial record-keeping contributes significantly to MSME performance. Overall, these results suggest that to enhance the performance of MSMEs, the primary focus should be directed towards improving the financial record-keeping system.

Table 5. Coefficient of Determination Concerning The Performance Variable of MSMEs

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,289a	,084	,067	5,20947

a. Predictors: (Constant), Financial Recording, Financial Literacy

Source: IDX data processing (2024)

The model summary presented in Table 8 illustrates the results of the regression analysis regarding the impact of financial literacy and financial record-keeping on the performance of Micro, Small, and Medium Enterprises (MSMEs). The coefficient of determination (R Square) of 0.084 indicates that 8.4% of the variation in MSME performance can be explained by the variables of financial literacy and financial record-keeping, while the remaining 91.6% is attributed to other factors not included in this model.

4 Discussion

4.1 The Influence of Financial Literacy on SMEs Performance Based on the results of the regression analysis presented in Table 6, it is evident that financial literacy has a coefficient of 0.027 with a significance value of 0.727, indicating that financial literacy does not have a significant impact on the performance of micro, small, and medium enterprises (MSMEs). This finding is supported by the research conducted by Seraj *et al.* (2022), which asserts that although financial literacy is important, it does not always contribute directly to sustainable business performance (MDPI). Furthermore, Purwaningsih & Haryono (2019) also found similar results, suggesting that financial literacy does not significantly affect MSME performance, potentially due to moderating variables or differing contexts in their study.

Conversely, research conducted by Brixiová *et al.* (2020) emphasizes that sound financial behavior has a more significant impact on company performance than the financial knowledge possessed by entrepreneurs. These findings are consistent with studies indicating the importance of financial record-keeping in significantly supporting the performance of small and medium-sized enterprises (SMEs). Therefore, the primary focus should be directed towards improving financial record-keeping systems to enhance the overall performance of SMEs.

4.2 The Influence of Financial Recording on SMEs Performance

The research findings indicate that financial recording possesses a coefficient of 0.265 with a significance value of 0.012, which suggests a positive and significant impact on the

performance of micro, small, and medium enterprises (MSMEs). This indicates that sound financial recording can substantially enhance MSME performance. The model's constant, valued at 27.467, demonstrates that even in the absence of the variables of literacy and financial recording, MSME performance still maintains a relatively high baseline. The t-statistic for financial recording, recorded at 2.564, further substantiates the argument that financial recording significantly contributes to MSME performance.

These findings align with previous research by Harahap (2014) and Nurlela (2015), which also indicates that financial recording has a positive impact on the performance of SMEs. According to their studies, effective financial recording facilitates financial management and oversight, ultimately supporting better decision-making and enhancing business performance. This research is also consistent with the study conducted by Alex (2015), which found that accurate and systematic financial recording is a key factor in improving the business performance of SMEs. Therefore, enhancing the financial recording system is a critically important strategic step for SMEs to improve their performance and sustainability.

5. Conclusion

Based on the results of the regression analysis and prior research findings, it can be concluded that financial literacy does not consistently exert a significant influence on the performance of micro, small, and medium enterprises (MSMEs). The analysis reveals a financial literacy coefficient of 0.027 with a significance value of 0.727, indicating that, within certain contexts, financial knowledge does not directly contribute to the enhancement of MSME business performance. This finding is corroborated by the studies of Seraj *et al.* (2022) and Purwaningsih & Haryono (2019), which also found that financial literacy does not always have a significant impact on business performance. Therefore, while financial literacy is important, the primary focus may need to shift towards other aspects that are more critical for the performance of MSMEs.

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