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THE EFFECT OF FINANCIAL LITERATURE ON THE FINANCIAL MANAGEMENT OF MSMEs

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Abstract

This research is a quantitative research. The purpose of this study was to determine the effect of financial literacy on the financial management of SMEs in Medan Selayang. The sample in this study were 35 MSME business actors in Medan Selayang District. The analytical technique in this research is a simple linear analysis technique. The research results show that financial literacy affects financial management SMEs in Overview. The magnitude of the influence of financial literacy on village financial management is 43.6% while the remaining 56.4% is explained by other variables that are not included in this research model.

Keywords: Financial Literacy, Financial Management

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INTRODUCTION

According to the Financial Services Authority (OJK), financial literacy is knowledge, skills, and beliefs that influence attitudes and behavior to improve the quality of decision making and financial management in order to achieve prosperity. Personal financial management is important for every individual, especially for students. Personal financial management can determine life in the short and long term. Financial management is a form of intelligence in managing personal financial assets that needs to be carried out in a disciplined and planned manner so that the planned goals can be realized at a predetermined time. This is of course closely related to the literacy level of each individual towards financial planning. Financial literacy is education and understanding of various ins and outs of financial management, so that a person is able to manage personal finances well and efficiently and is able to make the right financial decisions such as investment, insurance, property, education and health costs, making installments, retirement and tax planning. Financial literacy is also considered a solution that helps someone to avoid financial problems. Financial problems are not only about low income, but also mismanagement of finances such as excessive use of credit cards, wrong financial planning to preparing for an established retirement. (Gunawan, Pulungan, & Koto, 2019)

The results of the National Financial Literacy and Inclusion Survey (SNLIK) conducted by the Financial Services Authority (OJK) in 2019 yesterday, showed that the 2019 financial literacy and financial inclusion levels reached 38.03% and 76.19%, respectively. This figure is quite encouraging, pal, because Indonesia has succeeded in exceeding the target set by the Government in Presidential Regulation no. 82 of 2016 concerning the National Strategy for Financial Inclusion (SNKI) of 75% for the level of financial inclusion, while the target for the level of financial literacy set out in Presidential Regulation no. 50 of 2017 concerning the National Strategy for Consumer Protection of 35% has also been exceeded. This figure shows a significant increase from the previous survey in 2016 where there was an increase in public financial awareness of 8. ("Results of National Financial Inclusion and Survey Increase," 2020)

People in Medan City currently have financial growth which has decreased from 6.05% to 5.74% based on a survey ("Results of National Financial Inclusion and Survey

Increase,” 2020)so that financial behavior in today's modern competition is absolutely needed by society, because financial behavior includes how a person manages finances to meet his daily needs and life needs in the future, so that it can become capital to improve the welfare of each individual, Often a person's failure to manage finances is not due to a person's low income, but rather to the individual's ignorance of personal financial behavior

Personal financial behavior is needed in the implementation of education in order to improve public finances because it is based on a survey conducted by(“Results of National Financial Inclusion and Survey Increase,” 2020)that the level of financial literacy of the Indonesian population is divided into four parts, namely:

1. *Well literate*(21.84%), namely having knowledge and confidence about financial service institutions and financial service products, including features, benefits and risks, rights and obligations related to financial products and services, as well as having skills in using financial products and services.
2. *Sufficient literate*(75.69 %), have knowledge and belief about financial service institutions and financial products and services, including features, benefits and risks, rights and obligations related to financial products and services.
3. *Less literate*(2.06%), only has knowledge of financial service institutions, financial products and services.
4. *Not literate*(0.41%), do not have knowledge and confidence in financial service institutions and financial products and services, and do not have skills in using financial products and services.

To improve the financial behavior of the Indonesian people, the OJK Board of Commissioners, Muliaman Hadad, stated that the Financial Services Authority (OJK) together with the Association of Financial Services Institutions (LJK) from all financial industries on November 19, 2013 in Jakarta launched the National Strategy for Financial Literacy which involved a number of communities, practitioners, as well as academics. This program is intended to provide the widest possible knowledge to the public regarding financial literacy. The Indonesian government also cooperates with universities as partners to conduct early learning to students about the importance of financial behavior.

Organizing or managing business and business finances effectively is a method to maintain the pace or flow of company funds so that there are no leaks that lead to financial losses. Financial management(*money management*)In general, it is an activity of managing funds in daily life carried out by an individual or group with the aim of obtaining financial welfare. In achieving this prosperity, good financial management is needed so that money can be used according to needs and not wasted. To be able to implement a good financial management process, financial responsibility is needed to carry out the process of managing money and other assets in a way that is considered positive. The process of financial management is a very important activity to be carried out by business actors, including for people's economy actors, the majority of which are Micro, Small and Medium Enterprises (MSMEs). MSMEs are a form of community small business whose establishment is based on a person's initiative. The role of MSMEs is very strategic in the economy as one of the main driving forces in economic development. In North Sumatra itself, especially the Medan city area, which is one of the big cities in Indonesia, it has a fairly high level of economic growth, especially in the development of MSMEs(Harahap, 2020). MSMEs have a large contribution to regional and state revenues, and also play a very important role in reducing the unemployment rate because of their labor-intensive nature, this type of business is able to absorb a lot of unemployed workers. Micro, Small and Medium Enterprises (MSMEs) have the potential for great growth and development in improving the standard of living of many people. This is shown by the existence of MSMEs which have reflected the real manifestation of the social and economic life of the largest part of the Indonesian people.

Micro, Small and Medium Enterprises (MSMEs) are one of the many activities that have a very important role in improving the economy both developing and developed countries (Risnangsih, 2017). The business group that has the largest number and is proven to be resistant to various shocks from the economic crisis. The population of Micro, Small and Medium Enterprises (MSMEs) is still dominated by Micro Enterprises at 98.70% and the rest are small and medium enterprises. Chairman of the Indonesian MSME Association Muhammad Ikhsan Ingratubun said data as of 2018 the MSME sector contributed IDR 8,400 trillion to Gross Domestic Product (GDP). This figure is equivalent to 60% of Indonesia's IDR 14,000 trillion GDP in 2018 (Hartomo, 2019). These data prove that MSMEs are supporters in improving the Indonesian economy.

The role of Micro, Small and Medium Enterprises (MSMEs) is the best solution because MSMEs can create job opportunities which in turn can overcome the problem of unemployment. The Micro, Small and Medium Enterprises (MSME) sector has a very large market opportunity because there is always a market for the production of their goods and services considering that the Micro, Small and Medium Enterprises (MSME) sector is a producer of goods and services, especially for the lower middle class with high purchasing power. (Ardiyanto & Setiawan, 2013). As one of the components in the national industry, Micro, Small and Medium Enterprises (MSMEs) play an important role in the national economy, employment, equitable distribution of development results, and poverty alleviation. Data statistics show that the number of small, micro and medium enterprises (MSMEs) is close to 99.98% of the total business units in Indonesia with a contribution of 56% of the total GDP in Indonesia. This reflects the high significance of the role of SMEs for equitable distribution of the Indonesian economy.

The importance of the role of Micro, Small and Medium Enterprises (MSMEs) for the national economy is seen during the economic crisis, MSMEs are proven to be able to accommodate 99.45 percent of the total workforce or 73.24 million workers. The contribution made by MSME actors in conditions of economic crisis can be seen as a support in the process of national economic recovery, in terms of the rate of national economic growth as well as in increasing job opportunities. ("Portrait of Indonesian MSMEs: Little Ones Who Play a Big Role," 2019) MSMEs contribute not only to the domestic market, but also to exports significantly, thereby earning foreign exchange income for the country, thus making this sector emerge as a very strong pillar both in terms of regional income and in terms of labor. The Micro, Small and Medium Enterprises (MSME) sector in Indonesia has a major role and contribution to the national economy. As can be seen in the table below, in 2008 the MSME sector contributed to GDP of 55.67%. The amount of this percentage continues to grow from year to year, which is 56.53% in 2009; 57.12% in 2010; 57.94% in 2011; and 59.08% in 2012; and 60.34% in 2013. Thus, the average contribution of MSMEs to GDP per year from 2008 to 2013 was 57.78%. This percentage contributes 3.35% per year of the total national economic growth. Based on data from the Ministry of Cooperatives and SMEs of the Republic of Indonesia, the Economic Census from the Central Statistics Agency in 2016 showed the large contribution of MSMEs. MSMEs contribute to the Indonesian economy, MSMEs absorb up to 89.2 percent of the total workforce, MSMEs provide up to 99 percent of total employment, MSMEs contribute 60.34 percent of total national GDP, MSMEs contribute 14.17 percent of total exports. MSMEs, contributed 58% ("The Role of MSMEs in the Indonesian Economy," 2021)

Behind the achievements that have been achieved and shown by MSMEs, it is identified that there are still various problems that certainly need attention from all parties. The most basic problem in this case is related to the poor management of financial statements. This is often a scapegoat for closing a business field, especially a new one.

Financial management is important to be applied to MSMEs. MSME businesses whose finances are managed and informed in a transparent and accurate manner will have a positive impact on the MSME business itself (Sabiq Hilal Al Falih, Rizqi, & Adhitya Ananda, 2019). If this is given more detailed attention, then it is not impossible that the business being carried out can develop into a medium-scale business, maybe even a large-scale business.

Financial management becomes a problem in MSMEs because MSME owners ignore the importance of financial management, especially with regard to the application of correct financial and accounting management principles. This problem usually arises because the knowledge and information of Micro Business actors regarding accounting is very limited, the educational background of Micro Business actors also affects the knowledge of Micro Business actors. According to (Setyorini, Ari Istiningrum, Adhi Nugroho, & Murti Sagoro, 2012) stated that financial management is one of the important aspects for the progress of the company. Financial management can be done through accounting. Accounting is a systematic process to produce financial information that can be used for decision making for its users. As long as Micro, Small and Medium Enterprises (MSMEs) still use money as a medium of exchange, accounting is very much needed by MSMEs (Risnansih, 2017). Some MSME actors say that even without accounting, the company continues to run smoothly and always earns a profit (Setyorini et al., 2012). Many MSME actors feel that their company is running normally but in fact the MSME is not experiencing development. When they get questions about the profit earned each period, they can't show it in nominal numbers but with tangible assets such as land, houses, or vehicles.

Financial management is something that must be considered in running a business so as to achieve a goal to obtain prosperity in running a business related to financial management. According to (Sabiq Hilal Al Falih et al., 2019) "MSME actors whose finances are managed and informed in a transparent and accurate manner will have a positive impact on the businesses of these MSME actors". This positive impact of financial management will be a key factor in the success of MSME actors and can be used to maintain business continuity. (Hasyim, 2013). In an effort to improve the welfare of the community, which is caused by the level of welfare of a society in line with the level of financial literacy and the closeness of the community to their financial access.

The concept of financial literacy is quite diverse, this includes knowledge of financial concepts, the ability to understand communication about financial concepts, the ability to manage personal/company finances and the ability to make financial decisions in certain situations. Financial literacy as the ability to read, analyze, manage, and communicate about personal financial conditions that affect material well-being (DA Sari, 2015). The positive behavior of a person in managing finances as a result of a good level of knowledge and financial skills so that the future can be well planned, including preparation for a prosperous retirement (Gunawan et al., 2019). This is what makes financial literacy important.

The object of this research is the MSME actors in the Medan Selayang District. Initial interviews or surveys related to MSME financial literacy have been carried out for 20 MSMEs registered at the Medan Selayang Sub-District Office. The results of the observations can be seen in the table below.

Results of Observations of MSME Actors in Medan Selayang District

Statement	Answer	Number of MSMEs in the Trade Sector
The importance of planning	Very important	20

	Not important	-
Financial planning stages	Understand	15
	Do not understand	5
Knowledge of income and expenses	Know	8
	Don't know	12
Separation of financial records	To do	3
	Do not do	17
Credit information	Know	2
	Don't know	18
Investment knowledge	Understand	-
	Do not understand	20
Source of funds	Personal funds	20
	Credit loan	-

Based on the table above, it shows that from all MSME sectors in Medan Selayang Subdistrict, there is a low level of financial literacy or understanding and awareness of MSME actors about the importance of recording activities in managing their business finances. Currently, the condition of MSMEs still has many limitations with various problems. However, basically the problem lies in the limitations of human resources, namely the SMEs themselves.

The phenomenon that occurs, it is found that many MSME actors who run businesses do not manage their finances properly resulting in losses that often occur in their businesses. Some even experience a change in the type of business every year, this is due to an error in running the business, more precisely in managing their business finances. This phenomenon is known based on observations made by researchers. Financial literacy in financial management is a problem in MSMEs because MSME owners ignore the importance of financial literacy that must be owned by MSME actors or prospective MSMEs in managing their business finances, especially with regard to implementing correct accounting in their business financial management.

Some of the MSME actors also said that their business was running normally without applying accounting rules properly, by having modest financial records and calculations or not having records in their business. They only do simple financial records in the form of income and expenses only from proof of sales and purchase transactions. Then there are also those who do not record any financial transactions in their sales at all.

At this time, the MSMEs located in the Mojolaban sub-district keep financial records in the form of income and expenditure only from proof of sales and purchase transactions. In fact, these MSMEs produce every day and produce up to hundreds of units of production or goods every day, and not a few customers or distributors request goods.

If the owner earns income from customers, then it is directly used to buy routine raw materials every month. However, almost all customers buy goods from these MSME producers on credit without any determination of repayment time. Thus, owners often find it difficult to buy raw materials due to limited capital. This is an obstacle for MSMEs in the Medan Selayang District to develop their business. Based on the description of the background above, it can be concluded that an understanding of financial literacy is very much needed by business actors, including MSME actors so that they can carry out financial management properly and correctly. In financial literacy there is financial knowledge, financial planning and financial management that can be used by business actors to be able to

increase company growth. Related to the research gap and discussion above, in this study, the authors are interested in examining the significance of the effect of financial literacy level on financial management for MSME actors, namely in the Medan Selayang District. With this, this research is entitled "The Effect of Financial Literacy Level on MSME Financial Management in Medan Selayang District".

Financial Literacy

Literation is an individual's ability to use all the potential and skills he has in his life so that literacy includes a person's ability to process and understand information while doing the reading and writing process. (Soetiono, 2018) According to (Kharchenko, 2011) defines that "financial literacy is a necessary numerical skill and understanding of basic economic concepts needed to educate in saving and borrowing decisions" (Saputri, 2019). According to (Mendari & Kewal, 2014) explained that "financial literacy is a basic need for everyone to avoid financial problems".

Financial Management

According to (Rambe, Gunawan, Julita, Parlindungan, & Gultom, 2017) states that "financial management is all activities related to the acquisition, financing and management of assets with several overarching objectives. Financial management is an activity of planning, budgeting, examining, managing, controlling, finding and storing funds owned by an organization or company" (Yuesti & Kepramareni, 2019).

Micro, Small and Medium Enterprises (MSMEs)

MSME are productive businesses that meet business criteria with certain limits on net worth and annual sales results, and MSMEs that are not subsidiaries of the company or branch of the company, either directly or indirectly part of the company in accordance with predetermined criteria. The same is expressed on the page ("Portrait of Indonesian MSMEs: Little Ones Who Play a Big Role," 2019) that MSMEs are small businesses owned and managed by a person or owned by a small group of people with special provisions related to the amount of income and regulated in legislation.

RESEARCH METHODOLOGY

This study uses an explanatory research approach, which aims to explain the causal relationship between the research variables and the test hypothesis (Nasution, Fahmi, Jufrizen, Muslih, & Prayogi, 2020). This type of research used the associative approach. The data used by the author in this study is primary data. Primary data obtained by the author directly from the object of research. The primary data sources in this study were obtained from respondents through observation, interviews and questionnaire distribution techniques, the objects in this study were MSME actors in the Medan Selayang District. This research questionnaire contains respondents' basic knowledge of financial literacy and financial management of respondents in running their business.

DATA ANALYSIS AND DISCUSSION

Descriptive statistics

Descriptive statistics is the most basic analysis to describe the general state of the data. This descriptive statistic includes several sub-menus of descriptive statistics such as

frequency, descriptive, data exploration, cross tabulation and ratio analysis using Minimum, Maximum, Mean, Median, Mode, Standard Deviation.

Regression Analysis

Based on the results of classical assumption testing, it is concluded that the regression model used in this study has met the Best Linear Unbiased Estimator (BLUE) estimation model and is feasible for regression analysis. To test the hypothesis, the researcher used multiple regression analysis. Based on the results of data processing with the SPSS 20 program, the following results were obtained:

Regression Equation

Sugiyono (2012:298) In processing data using linear regression, several stages were carried out to find the relationship between the independent variable and dependent variable, through the influence of financial literacy on Financial Management. Based on the results of data processing with the SPSS Version 22 program, the following results were obtained:

Table
Regression Equation

Model	Unstandardized Coefficients		Standardized Coefficients
	B	Std. Error	Beta
1 (Constant)	15,091	5.870	
Financial Literacy	.602	.119	.660

a. Dependent Variable: Financial Management

Based on the table above, the regression equation is obtained as follows

$$Y = 15,091 + 0.602X + e$$

Information:

1. a constant of 15,091 indicates that if the independent variable is (= 0) then the value of financial management conditions is 15,091.
2. as big as 0.602 shows that the relationship between the x and y variables is positive, then each financial literacy increase by 0.602 by 1% will be followed by an increase in financial management SMEs in Overview of 0.602 with the assumption that other variables are constant.

Hypothesis testing

1) t test

The t-test was used to test the significance of the constant and each independent variable. With the following criteria:

- 1) If Sig > 0.05, then H0 = accepted, so there is no significant effect between the independent and dependent variables
- 2) If sig < 0.05, then H0 = rejected, so there is a significant effect between the independent and dependent variables
- 3) If tcount > ttable, then H0 = rejected so that there is a significant effect between the dependent and dependent variables
- 4) If tcount < ttable, then H0 = accepted so that there is a significant effect between the independent and dependent variables

From the results of this study, the variables obtained

Hypothesis: financial literacy affects financial management SMEs in Overview

Table
t test
Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
1 (Constant)	15,091	5.870		2,571	.015
Financial Literacy	.602	.119	.660	5.049	.000

a. Dependent Variable: Financial Management

$t_{count} > t_{table}$ (5.049 > 2.034)

Significance value 0.000 < 0.05

Then H_0 is rejected so that financial literacy affects Financial Management SMEs in Overview.

Coefficient of Determination

The value of the correlation coefficient (R) indicates how big the correlation or relationship between the independent variables and the dependent variable. The correlation coefficient is said to be strong if the R value data is between 0.5 and close to 1. The coefficient of determination (R Square) shows how much the independent variable explains the dependent variable. The value of R Square is 0 to 1. If the value of R Square is getting closer to 1, then the independent variables are close to all the information needed to predict the variation of the dependent variable. On the other hand, the smaller the value of R Square, the more limited the ability of the independent variables to explain the variation of the dependent variable.

Table
Model Summary
Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.660a	.436	.419	1.95486	.436	25.496	1	33	.000	1.753

a. Predictors: (Constant), Financial Literacy

b. Dependent Variable: Financial Management

Adjusted R Square is used to measure the confidence level of adding the right independent variable to increase the predictive power of the model. From the research results, the adjusted R Square value of 0.436 means that 43.6% of financial literacy affects Financial Management while the remaining 56.4% is explained by other variables that are not included in this research model.

Discussion

From the regression table, it can be seen that the t_{count} is 5.049 with a significant value of 0.000, while the t_{table} is 2.034, so that $t_{count} > t_{table}$ (5.049 > 2.034), then financial literacy shows a number < 0.00 (0.000 < 0.05), then H_0 is rejected and H_a is accepted, meaning that financial literacy affects Financial Management SMEs in Overview. Financial literacy is "a series of processes or activities to increase knowledge, confidence and skills consumers and the wider community so that they are able to manage their finances better" (OJK, 2013). Good financial management is the management of obtaining funds and using these funds efficiently, so that the company earns profits and can survive in the future.

Good financial management can prevent companies from business failure. The manager of a business needs to also pay attention to the financial management function to improve its quality (Risnansih, 2017).

Financial literacy is very important for MSME actors for the sustainability of their business. Therefore, financial literacy owned by MSMEs can be used as a tool to overcome the problem of low knowledge about the use of financial service products and financial management of MSME actors. Financial literacy is related to the financial management of MSME actors, where the lower the level of financial literacy owned by MSME actors, the less good their financial management is and vice versa. An understanding of financial literacy is also very much needed by Micro, Small and Medium Enterprises (MSMEs) in managing their finances. Business actors in dealing with business management will be greatly assisted by financial literacy, ranging from budgeting, planning for company fund savings, as well as understanding basic finances to achieve business financial goals. Until now, the government is still paying serious attention to MSMEs, especially in terms of the ability of MSME actors to gain broad access to capital, such as obtaining financing services from financial institutions, namely by obtaining credit that can help MSME actors develop their businesses. MSMEs have a very important role and are able to contribute to the Indonesian economy, including as employment and equitable distribution of the regional economy. The large number of MSMEs will synergize with the availability of wide employment opportunities in Indonesia. Increased job opportunities will also increase people's income which has an impact on increasing people's purchasing power.

So with the availability of jobs that are generated it will reduce the unemployment rate in the country which is expected to improve people's welfare and reduce unemployment and poverty. Judging from the large contribution of MSMEs in Indonesia, it becomes a great opportunity for the development of domestic markets and industries, especially in the real sector. However, MSME actors often experience obstacles in developing their business due to lack of skills in financial management. The basic problems that are often experienced by MSME actors are capital problems, the form of legal entities that are generally formal, human resources, product development and in the marketing aspect. Another problem that often occurs in MSME actors is that there are still problems and obstacles experienced by MSME actors, such as the low performance of MSMEs in terms of ability in financial management. Based on the results of research in Medan Selayang is engaged in the trade sector which consists of food and beverage SMEs, fashion, and grocery. Most of them in managing their finances are still traditionally not done with better literacy.

Furthermore, what is often experienced by MSME owners is financial management which is still an obstacle. This problem arises because of limited knowledge about finance. This causes the business that is being run does not experience an increase in performance and even seems to be standing still. Therefore, MSME actors continue to improve financial literacy, with efforts to improve financial literacy which includes increasing the knowledge, skills, and confidence of consumers and the public, it is hoped that they can manage their personal and business finances well. Financial management in running a business is very important, because it can reduce financial problems that occur, with good financial management. One of them is financial literacy, with good literacy, MSME actors are able to identify financial problems, measure the financial condition of the business and the factors that influence financial literacy on the financial management of MSME actors. (Sari, Irfan, Jufrizen, & Deli, 2020).

CONCLUSIONS

From the results of the discussion in chapter 4, this research can be concluded as follows: Financial literacy affects financial management SMEs in Overview. The magnitude of the influence of financial literacy on village financial management is 43.6% while the remaining 56.4% is explained by other variables that are not included in this research model. From the results of the study, there are several suggestions that will be given to SMEs in Overview. For MSME owners in Medan Selayang, it would be better if they continued to increase their knowledge of finance and apply their financial knowledge to manage their business finances so that MSMEs are expected to run their business effectively and efficiently. It is hoped that policy holders, namely the Medan city government through the MSME, Industry and Trade Service, will continue to make efforts to increase financial literacy for MSME owners in the Medan City area, especially Medan Selayang, by conducting seminars or training / workshops related to financial insight and good financial management. With the hope that it will increase the capabilities and insights related to finance owned by MSME owners. Further researchers are advised to use more research objects and other supporting variables so that the results can be generalized. Then in designing the questionnaire, it is recommended to use questions that are more adapted to the conditions of the MSMEs themselves, which are expected to be able to provide a more accurate picture.

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