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The Influence of Financial Literacy, Financial Management, and Financial Technology on Business Performance And Sustainability of Micro, Small, and Medium Enterprises In Sumatera, Indonesia

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Abstract

Business performance and business sustainability are crucial for business owners to achieve their targets. The business performance and sustainability of micro, small, and medium enterprises (MSMEs) contribute positively to the country's economy. When compared to large companies, MSMEs employ the most people. MSMEs more significantly influence the Gross Domestic Product (GDP) growth or development. MSMEs are the backbone of a nation's economy, increasing employment possibilities. The worst issue is the decline in annual sales and potential economic headwinds brought on by dropping commodity prices. This study aims to analyze the influence of financial literacy, financial management, and financial technology on business performance and the sustainability of MSMEs in Sumatra. This study was designed using a quantitative approach and questionnaire survey of MSME owners in Sumatra, Indonesia. A simple random sampling technique is used. The data were analyzed using a structural equation model (SEM). The validity, reliability test, statistical descriptive, and multiple regression tests were conducted. Financial literacy and technology affect business performance; meanwhile, financial management does not. Furthermore, the result shows financial literacy and management affect business sustainability. Financial technology does not affect the sustainability of MSMEs.

Keywords: business performance and sustainability; financial literacy and management; financial technology MSMEs

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Introduction

Micro, Small, and Medium Enterprises (MSMEs) are the backbone of the country's economy (Wardiningsih, 2022). Business performance and sustainability are essential for MSMEs to achieve their business targets. Business performance is an effort at a particular time (Otto et al., 2020; Davis & Cobb, 2010; Thrikawala, 2011). The metrics used to gauge business performance are standards, completeness, and cost (Harash et al., 2014; Tse, 1998; Kong et al., 2020; Cowan & Guzman, 2020). Business performance includes finance, management style, customer relationship management, service quality, employee compensation, and motivation (Asadabadi et al., 2020; Murphy, 2020). Financial and non-financial performance measure business

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performance (Harash et al., 2014; Tuffour et al.,2020; Otto et al., 2020).

Research on business performance and sustainability relates to financial literacy and management (Succi & Canovi, 2019; Çera et al., 2020; Eniola & Entebang, 2015; Damayanti et al., 2018) and also financial technology (Puschmann, 2017). Studies argue that financial literacy and management are fundamental to improving business performance and sustainability.

The problem in this study is the worst performance of MSMEs with negative annual sales growth in 2012 – 2018 (Department of Cooperatives and MSMEs, 2021). The COVID-19 pandemic has also become one of the most significant economic shocks in the world, including in Indonesia. The impact of this pandemic is more influential on Indonesia's financial business, causing declining business performance and threatening business sustainability. The duration of this recovery is because, in the recovery process, Indonesia is facing new challenges of the Delta variant, so there is another decline in economic growth (Warsito, 2023).

This research attempts to empirically prove whether financial literacy, financial management, and financial technology affect the performance and business sustainability of MSMEs in Sumatra. The urgency of the study is that there are inconsistencies in previous research, analysis of business performance (Ngurah et al., 2017; Solomon & Mathias, 2020), gender (Alimuddin et al., 2020), and balanced scorecard. (Yuniningsih et al., 2018). It uses financial performance. At the same time, this study will examine the influence of financial literacy, financial management, and financial technology that affect business performance and sustainability. This study used both financial and non-financial performance. Due to Sumatra's poor performance and lack of business sustainability, there is little competition throughout the Indonesian archipelago (Bappenas, 2014; BPS, 2016).

The novelty of the research is that this study has two independent variables, while other studies only test one independent variable. This study also includes financial technology variable as something new in influencing business performance and sustainability and using measurement methods with financial and non-financial. In contrast, the other research is only one variable of financial.

Literature Review

State-of-the-art research is as follows. Several previous studies examine business performance and business sustainability (Eniola &; Entebang, 2017; Aribawa, 2016; Setiawan et al., 2020; Hari Adi & Adawiyah, 2018; Amri & Iramani, 2018; Maksum et al., 2020), while this study combines two independent variables while other studies only use one independent variable only business performance or business sustainability. Furthermore, this research also adds financial literacy and financial technology. Financial technology is the latest issue associated with business performance and business sustainability. This study also used performance measurement with financial and non-financial measuring instruments, while the survey rarely used both.

Business performance is the consequence of the labor completed by people and businesses over a specific period (Mutegi et al., 2015; Ting et al., 2020). Business performance is highly successful company performance in its operations (Harash et al., 2014). The performance demonstrates how effectively a business may use its resources to generate income (Mouna & Anis, 2017; Anwar, 2018). Business success is crucial for MSMEs and contributes to developing national and global economies. Business goals are determined using business performance as an indicator. The company's performance in business

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is the outcome. MSMEs have a business strategy that is both market-focused and money-focused (Jogaratnam, 2017). The sustainability and performance of companies are used to gauge the success rate of MSMEs.

According to Nenzhelele and Pellissier (2014) and Yuniningsih et al. (2018), the performance of MSME businesses includes financial company performance (profit, return on total assets, and return on total investment) is measured first. Shareholder returns (economic value added) are measured second. Because it quantitatively restricts resources, measuring MSME firm performance is frequently challenging (Sarraf & Nejad, 2020).

Research corporate success can be measured in various ways, including corporate expansion, profitability, customer perception and loyalty, and product and service innovation. According to Alimuddin et al. (2020), non-financial factors like image, customer loyalty, and product/service innovation should not be used to gauge a company's performance. The other dimensions, such as business expansion and profitability, on the other hand, are highly connected and reliable performance indicators. Furthermore, business sustainability in MSMEs may be observed through the business performance at innovating, managing its staff and customers, and recouping its initial investment (Maksum et al., 2020).

Business sustainability must fully maintain its business to remain competitive in the market. Dynamic and changing competitive conditions make MSMEs. As a result of these changes, MSMEs must implement new strategies to maintain and expand their market share. Several factors affect the duration of a job that makes a business firm sustainable, including business planning, updating business plans in general, competitor analysis, ease of starting a business, and the ability to calculate risk. Business sustainability can be seen in innovation, HR management, and customer success (Panggabean & Dalimunthe, 2018).

Method

A population is a collection of individuals, occasions, or any topic of general or universal interest that researchers wish to study. At the same time, the sample comprises chosen people from the general population (Sekaran, 2018). MSMEs predominate in Sumatra. This island was picked because it has the worst business performance out of Indonesia's other five significant islands (Java, Kalimantan, Sulawesi, Papua, and Nusa Tenggara). The portion of the population that will be tested is the sample. MSMEs operate in a variety of industries. The Sumatra region comprises the Aceh Nangroesalam, Riau, Jambi, South Sumatra, Bengkulu, Lampung, Bangka Belitung Islands, and West and North Sumatra. Samples are taken by simple random sampling.

The major source/primary data is the dissemination of surveys. All variables of business performance, business sustainability, financial literacy, financial management, and financial technology are used with Strongly Disagree = 1, Disagree = 2, Neutral = 3, Agree = 4 and Strongly Agree = five on a 5-point Likert scale.

Results And Discussion

The owner given questionnaire in Sumatra, Indonesia. One hundred and ten questionnaires were returned in total. Table 1 provides a summary of the respondents' profiles. The Sumatera Utara district has the most responses in this study, it is discovered.

The respondent profiles of the 110 MSMEs who responded are displayed in Table 1. The profiles include the gender distribution of the sector sample, the residence of MSMEs, the ages, the degree of education, the number of incomes, and the business ages. The following Table 1 shows all variables affecting data distribution, the

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number of respondents who fit each distribution, and the percentage for each criterion:

Table 1 Respondent profiles (N= 110)

Descriptive	Profile	Frequency	Percentage (%)
Distribution of sectors sample	Culinary	26	23.60
	Fashion	15	13.60
	Business in Education	4	3.60
	Automotive	4	3.60
	Agribusiness ventures	9	8.20
	Business of Internet technology	2	1.80
	Handicraft Business	4	3.60
	Electronic and Gadget Business	4	3.60
	Wholesale and retail business	27	24.50
	Beauty business	4	3.60
	Office Stationery	2	1.80
	Other	9	8.20
Gender	Male	59	53.60
	Female	51	46.40
MSMEs domicile	Nangroe Aceh Darussalam	6	5.50
	North Sumatera	5	4.50
	Riau	11	10
	West Sumatera	49	44.50
	Riau Islands	5	4.50
	Jambi	8	7.30
	Bengkulu	5	4.50
	South Sumatera	5	4.50
	Lampung	7	6.40
	Bangka Belitung	9	8.20
Age	18-19	2	1.82
	20-29	26	23.63
	30-39	12	10.91
	40-49	38	34.55
	50-65	32	29.09
Education	Junior High School	5	4.50
	Senior High School	38	34.50
	Diploma	21	19.10
	Graduate	37	33.60
	Master	7	6.40
	Doctorate	2	1.80
Income	Rp 500,000 - Rp 3,099,000	41	37.30
	Rp 3,100,000 - Rp 7,099,000	34	30.90
	Rp 7,100,000 - Rp 10,099,000	15	13.60
	Rp 10,100,000- Rp 13,099,000	7	6.40
Business Age	1-3 years	31	28.20
	4-5 years	16	14.50
	More than five years	63	57.30

Table 1 provides a summary of the respondents' profiles. The Sumatera Utara district has the most responses in this study. It was discovered 27 (24.50%), followed by 26 respondents (23.60%) in culinary. MSMEs domicile dominant in West Sumatera at 49 respondents (44.50). Most respondents hold the Senior High School at 38 (34.50%), followed by the graduate qualification of 37 respondents (33.60%). Regarding the income variable, 41 respondents (37.30%) reported an income range of Rp 500,000 to Rp 3,099,000, while 34 respondents (30.90%) reported an income of Rp 3,100,000 to Rp 7,099,000. For the SME business age dominant at more than five years, 63 respondents (57.30%).

Validity and Reliability Test of the Questionnaire

To build a successful research tool, validity, and reliability are two critical conditions that must be fulfilled. The questionnaire parameters were based on acceptable and altered questionnaires from other studies. Therefore, the notions of validity and reliability were used to evaluate how well the measurements performed.

The degree to which each statement or question's score effectively expresses the concept is known as validity (Farrell et al., 2016; Highhouse et al., 2017; Alkunsol et al., 2019). Validity can be established using various strategies, such as content and construct validity (Sekaran, 2018). By ensuring that the measurements are sufficient to characterize the notion content validity is established. There are three primary phases to this research. The validity and reliability test results are provided as follows in Figure 1.

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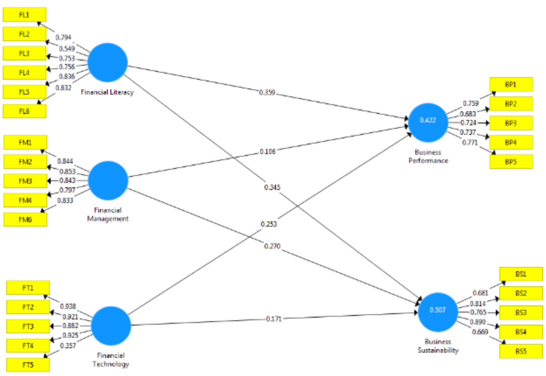

Figure 1 Validity Test

The factor loading validity test needs to be more than 0.6 (Sekaran, 2018). Validity and reliability are carried out for the instrument of this study). All items are valid questions. Furthermore, Table 2 shows the Average Variance Extracted (AVE), Croanbach's Alpha, and Composite Reliability.

Table 2 Croanbach's Alpha, Composite Reliability, Average Variance Extracted (AVE)

Construct	Average Variance Extracted (AVE)	Croanbach 's Alpha	Composite Reliability
Financial Literacy	0.574	0.847	0.888
Financial Management	0.534	0.869	0.905
Financial Technology	0.685	0.860	0.913
Business Performance	0.534	0.786	0.851
Business Sustainability	0.610	0.840	0.886

Table 2 shows convergent validity tests with loading factors, and AVE have been implemented. All questions are valid if the AVE is more significant than 0.5. All item variables are valid. Additionally, the Cronbach Alpha-reliability test is shown in Table 2. The range of the alpha values is from 0.762 to 0.922. Rankings between 0.80 and 0.95 indicate excellent reliability, whereas scales between 0.7 and 0.80 are fair (Highhouse et al., 2017). Therefore, all variable values are reliable because the scores lean toward the big scale.

As a result, composite reliability is evaluated using the same standards as Cronbach Alpha. The total reliability value must be more than 0.7 for the variable to be considered dependable. All of the research's variables are greater than 0.7. Every variable is reliable.

Overall, the variables are reliable, and the variable indicators are valid after passing reliability tests using Cronbach Alpha and Composite Validity tests for convergent analysis (AVE).

Multiple Regression Analysis-Evaluation Structural Model (Inner Model)

All hypotheses (H1–H6) were tested using SEM PLS (Smart PLS). R square, path coefficient, t statistic, and model fit comprise the structural evaluation model (inner model) (The First Indonesian Research Consultant for Students, 2019). After that, regression analysis were used to examine the data. Statistical methods, particularly for quantitative analysis, have become crucial in research. Regression approaches have several drawbacks and are the foundation of statistical methods. Then, these restrictions are enhanced using structural equation modeling (SEM) techniques. SEM must be employed because it has become a standard study tool (Zedadra & Guerrieri, 2019; Estiningsih et al., 2020; Abed, 2020).

Multiple regression analysis in social science will be done correctly using SEM. Latent variables, or variables that cannot be measured directly, must be used by researchers—for instance, financial management, financial technology, company performance, and business sustainability. Figure 2 is a multiple regression analysis as follows

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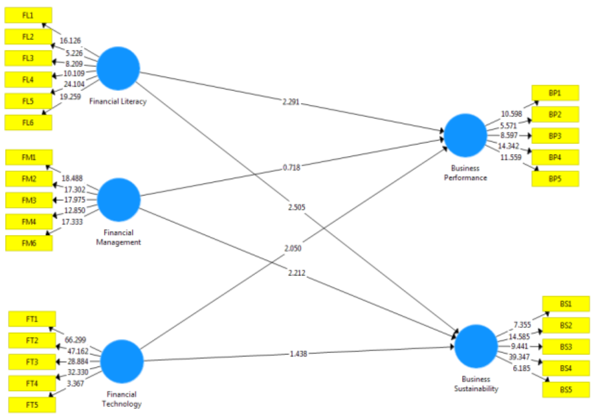

Figure 2 Multiple regression analysis

Table 3 Regression Model Summary Statistics of the Financial Literacy, Financial Management, and Financial Technology on Business Performance

Dependent Variable	Acronym	Path Coefficient	(t Statistic)	Hypothesis
Financial Literacy	FL	+0.324	2.535 0.038**	H1 supported at α 5%
Financial Management	FM	+ 0.135	0.832 0.406	H2 not supported
Financial Technology	FT	+ 0.260	2.127 0.034**	H3 supported at α 1%
R2	0.500			
Model fit	0.737			

***, **, * indicates that regression analysis is statistically significant at 1%, 5%, and 10%

Table 3 demonstrates the substantial correlation between three independent variables—financial management, financial technology, and financial literacy and business performance. The outcome indicates that two hypotheses, H1, and H2, have beneficial effects at a 5% and 1% significance. They positively affect financial literacy and financial technology on business performance. Meanwhile, financial management is not supported to influence business performance.

Financial literacy is a fundamental requirement for successful business performance. Thus, improper financial management resulting from a lack of financial literacy among proprietors is the cause of financial difficulties. Finance management plays a crucial role in determining the business performance of MSMEs. Understanding and financial skills are fundamental to finance and business performance. Some researchers examine financial literacy to enhance societal well-being (Amri & Iramani, 2018; Rahayu & Musdholah, 2017; Eniola & Entebang, 2015). Currently, the proprietors of MSMEs strive to obtain the facilities guaranteed by Indonesian law, such as low-interest business loans. Government authorities should make it simple to get a company license and ensure business sustainability.

Less financial literacy among the proprietors of businesses may contribute to their exceptional business results. Owners of enterprises must be financially literate (Amri & Iramani, 2018). Their business is viewed as a factor in supporting the proprietors of MSMEs. Individuals can avoid financial problems and make sound financial decisions. Their minime of financial knowledge causes them to make poor financial decisions, resulting in poor business performance. It highlights the importance of family financial literacy education and the need to offer it to kids as early as possible. Education in financial literacy and the right to procreate have value.

The authority of financial institutions spearheaded the endeavor to democratize financial literacy education in Indonesia, Bank Indonesia, the Ministry of Education and Culture, and others (Susanti et al., 2019; Theodora & Marti, 2016). Financial literacy education aims to give people the information they need to make wise financial decisions.

However, a high financial literacy will enhance corporate performance and make possible operational process problems more apparent. Their businesses will be simpler to manage. If the owners of SME businesses are financially literate. A path of growth that gets better over time results from wise company

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decisions and sound financial management. If its members thoroughly understand finances, company performance management will attain its highest level of business performance (Aribawa, 2016; Soriano, 2017; Rahayu & Musdhollah, 2017). The analyses indicate that financial literacy affects performance. A business person or business proprietor with a higher level of financial literacy will write financial reports more frequently. According to Wise (2013), business owners that provide financial statements more regularly are more likely to expand their enterprises and have fewer failures that could lead them to shut down. Meanwhile, financial management results do not affect the long-term viability of MSMEs in Sumatra. Financial records cannot give detailed or understandable information regarding financial statements since most survey respondents have not established financial management. The separation of personal and business finances has not been done to reduce and enhance business capital, so it has not helped the sustainability of MSME enterprises in Sumatra.

Nadifah (2022), who concluded that business finance management has no impact on the sustainability of MSMEs, supports the findings of this study. MSME financial management only keeps simple records of expenses and income received to protect the sustainability of MSMEs. The implementation of MSME financial management, specifically the usage of recording, reporting, budget use, and control, is still very substandard, supports the findings of this study. Business performance and sustainability are not guaranteed under this circumstance.

The third hypothesis predicts how financial technology, such as payment systems, will affect corporate performance. According to this study, the payment mechanism dramatically impacts a business performance. The findings of Mallat and Tuunainen's (2008) research, which analyzes variables that work against merchants generating system payments, growing sales, and mobility, show a significant benefit in favor of system payments. Utilizing the applicable payment system technology affects MSME owners in terms of improved sales, revenue, and business performance. Hayashi (2012) acknowledges the degree of mobility and observes that the degree of benefits in taste makes using payment comfortable. The exact indications used by the e-money system payment to determine its level of advantages are (1) transaction speed; (2) transaction usefulness; (3) removal of the potential of counting during the transaction; and (4) transaction security. Desiyanti (2018) claims that the payment system boosts the company's productivity and income level, contributing to 1.6% of the revenue growth rate.

Financial technology, such as e-commerce and payment systems, has a significant and favorable impact on the performance of SME owners. It has been demonstrated that as the number of SMEs engaging in online commerce rises, so will their productivity. According to Ningtyas, Sunarko, and Jaryono (2015) and Noviani & Sinarasri (2017), e-commerce has a favorable and significant impact on MSMEs' business performance.

In light of this finding, Prawirasasra (2018) concluded that enhancing financial technology in Indonesia improves economic performance. Financial technology stimulates the distribution of national finance, flattens population welfare, aids domestic/MSME fund financing, raises national financial inclusion and literacy rates, and expands SME capabilities. Financial technology affects society, such as altering how traditional financial institutions think. Financial institutions that are considered to be conventional are those that are seen as being rigid and unsuitable for customers. Financial technology must involve financial institutions and business people for more significant optimization. Currently, the

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availability of financial technology can improve corporate performance.

Financial technology must accommodate less complex business operations. Financial technology primarily revolutionizes the payment process in the context of MSMEs by facilitating a more seamless and user-friendly transaction, thus enhancing business performance (Amalia et al., 2016). Financial technology has potential benefits for organizations, their customers, and suppliers.

Another example of financial technology is peer-to-peer lending. Peer-to-peer lending is one of the definitions of financial technology, which is a collaboration between technology and finance created by the government to address the issue. One of the financial technology businesses connects online parties needing working cash with a lender that anticipates a specific rate of return. Peer-to-peer lending is more convenient for MSMEs because it is transparent, efficient, cost-effective, and has a low-interest rate (Nisar et al., 2020).

Peer-to-peer lending based on information or financial technology is a method of borrowing money. Financial technology enhances corporate performance and supports the national economy's future growth (Rosavina et al., 2019). P2P lending can become a bridge for the business needs of SMEs and the creative economy to remain productive (Kusharianto, 2018)

The exact indications used by the e-money system payment to determine its level of advantages are (1) transaction speed; (2) transaction usefulness; (3) removal of the potential of counting during the transaction; and (4) transaction security. Desiyanti (2018) claims that the payment system boosts the company's productivity and income level, contributing 1.6% of the revenue growth rate and performance, primarily fueled by technology. Scott et al. (2017) provide support for this study.

This study provided evidence that using financial technology improves corporate performance. Peer-to-peer lending using financial technology has emerged as a credit option for SMEs. A loan would increase capital, leading to a successful business (Mahardhika, 2017). Furthermore, Table 4 shows Regression model summary statistics of the Financial Literacy, Financial Management, and Financial Technology on Business Sustainability as follows

Table 4 Regression model summary statistics of the Financial Literacy, Financial Management, and Financial Technology on Business Sustainability

Dependent Variable	**Acronym**	**Path Coefficient**	**(t Statistic)**	**Hypothesis**
Financial Literacy	FL	+ 0.372	2.535 0.012***	H4 supported at α 1%
Financial Management	FM	+ 0.254	1.772 0.077*	H5 supported at α 10%
Financial Technology	FT	+ 0.154	1.310 0.191	H6 not supported
R^2	0.410			
Model fit	0.791			

***, **, * indicates that regression analysis is statistically significant at 1%, 5%, and 10%

Table 4 shows three independent variables: financial literacy, financial management, and financial technology related to business sustainability, The result shows that two hypotheses, H4 and H5, have favorable effects at a 1% and 10% significant level. They positively affect financial literacy and financial management on business performance. Meanwhile, financial technology does not influence business sustainability.

The impact of financial literacy on business sustainability has led researchers to conclude that owners and managers who desire to use financial literacy can increase their company's sustainability. Higher financial literacy will ultimately promote business sustainability, improving MSMEs' understanding of handling corporate finances.

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The findings of this study support those of earlier research by Aribawa (2016), which found that financial literacy had a favorable impact on the sustainability and performance of innovative MSMEs in Central Java. According to Ida Ayu (2020), the findings of the hypothesis test indicate that factors affecting financial literacy impact the viability of businesses in Denpasar. Financial literacy has a favorable impact on the long-term viability of MSME enterprises. The sustainability of MSME enterprises in Makassar will benefit from solid financial literacy (Ratnasari, 2020). Financial literacy positively correlates with and has a sizable impact on the viability of businesses. The outcomes demonstrated a substantial relationship between the Bukit Raya subdistrict MSME actors and financial literacy variables on company sustainability (Iyulinda, 2021). The study indicated that financial literacy is positively associated with the sustainability of MSME enterprises in Bukittinggi.

Furthermore, financial management is crucial for a company's survival, among other reasons being that it enables business actors to better manage their finances by identifying and eliminating unnecessary costs. The stages of financial management include planning, implementing, and controlling/overseeing finances. Financial management is linked to financial planning and control. Therefore, it is anticipated that MSME company players will set up financial management as much as possible for business sustainability over time.

The findings of this study support earlier research by Sifana (2021), which came to the same conclusion on the impact of financial management on MSMEs turnover in Palangkaraya. The financial performance of furniture MSMEs in Gorontalo City has been positively and significantly impacted by partial financial management

This research shows that financial technology does not affect business sustainability. MSME businesses will still run well without financial technology and manual. Tests that have been carried out show that financial technology does not significantly affect the business sustainability of MSMEs. A part of MSMEs is familiar with the use of technology. Lack of knowledge leads to doubts about adopting financial technology. M-banking and digital payment are the most popular services that MSME players often use. The flexibility of transactions anytime and anywhere offered by financial technology has not been able to be optimized. In transacting, MSME actors do not choose because of convenience, but transaction security, the confidentiality of information, and costs are considered. The identical discovery and finding—that financial technology has no impact on a firm's viability (Maulana et al., 2022)

Conclusions

Based on the results and discussion conducted using linear regression analysis, the following conclusions as following: Financial literacy has a significant positive influence on the business performance of MSMEs in Sumatra. Financial management does not have a significant effect on the business performance of MSMEs in Sumatra. Financial technology has affected the business performance of MSMEs in Sumatra. Financial literacy has a significant positive influence on business sustainability in Sumatra. Financial management has a significant positive influence on business sustainability in Sumatra. Financial technology does not affect the business sustainability of MSMEs in Sumatra.

Research Limitations and Suggestions

The result of this study is far from ideal and falls short of the intended outcomes. Future researchers should therefore pay closer attention to this shortcoming.

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The limitation of this study is that it has limitations in providing questionnaire questions where researchers are worried that there will be saturation from respondents if there are too many questions; it is recommended for further research efficient and practical questions. The number of research respondents is still relatively small Sumatra area. It is expected that future researchers will be able to increase the number of respondent samples. This study only uses several independent factors. Therefore future researchers interested in MSMEs' business performance and sustainability can add independent or other variables to find various aspects that affect MSMEs' performance and sustainability. In addition, the scope of this research is very limited to the area of Sumatra. Therefore, future research can explore various places with a broader area.

Research Implications

Based on research findings, the influence of financial literacy, financial management, financial technology and business sustainability on MSME performance and business sustainability. Researchers have several suggestions based on the results of this study, which are as follows: It is hoped that MSMEs have applied financial literacy, financial management, and financial technology to business performance and sustainability and can learn or learn more about how to do and implement financial planning. Various problems can occur, resulting in a decrease in MSME's business performance and increasingly hostile company sustainability If finances are not carried out effectively. It is hoped that the government hopes to collaborate with MSMEs in Sumatra to conduct counseling on the importance of business sustainability and financial literacy development so that the wider community understands and is skilled in making decisions and managing finances in running MSME businesses for the performance of MSMEs and long business sustainability.

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