

THE EFFECT OF FINANCIAL LITERACY AND FINANCIAL TECHNOLOGY ON MICRO-BUSINESS PERFORMANCE MEDIATED BY FINANCIAL INCLUSION (CASE STUDY OF MICRO-BUSINESSES IN MUARA BULIAN DISTRICT)

Hesti Nila Kusumardiyani ¹⁾; Rike Setiawati ²⁾; Besse Wediawati ³⁾ Uswatun Hasanah⁴⁾

^{1,2,3,4} Universitas Jambi, Jambi Indonesia

Corresponding author: rike_setiawati@unja.ac.id

Abstract

This study aims to the Effect of Financial Literacy and Financial Technology on business performance through Financial Inclusion mediation in the subdistrict Muara Bulian. This research is quantitative and the research data used are primary and secondary. The sample is in the subdistrict Muara Bulian, totalling 93 actors. Data collection was carried out by distributing questionnaires with a Likert scale. Data testing techniques use the Validity Test and Reliability Test, R-Square test and Hypothesis Test with Bootstrapping using SmartPLS 3.0 Software. The results showed that Financial Literacy had a positive significant effect on Business Performance, Financial Technology had a positive significant effect on Business Performance, Financial Literacy had a positive significant effect on Financial Inclusion, Financial Technology had a positive significant effect on Financial Inclusion, Financial Inclusion had a positive significant effect on Bussiness Performance, Financial Literacy had a positive significant effect on Business Performance with Financial Inclusion mediation, Financial Technology had a positive significant effect on Business Performance with Financial Inclusion mediation.

Keywords: Financial Literacy, Financial Technology, Business Performance,, Financial Inclusion

Introduction

Micro, Small and Medium Enterprises (MSME) in Indonesia is a business sector that has an important role in the pace of the national economy. This is reinforced by the results of a press release conducted by the Coordinating Ministry for Economic Affairs (2022) in which the MSME sector in Indonesia can contribute 60% of the Gross Domestic Product and absorb 97% of the national workforce. It can be seen from the economic growth in Indonesia which has experienced good development and change every year. Based on data from the Central Statistics Agency (BPS), Indonesia's economic growth in the first quarter of 2023 was recorded at 5.03%, a slight increase compared to growth in the previous quarter of 5.01%. This explains that MSME are the most productive businesses to be developed to support macro and micro economic development in Indonesia.

The impact of the Covid-19 pandemic is a change in the pattern of consumption of goods and services from offline to online, causing MSME players to have difficulty in achieving the targets that must be achieved. katadata Insight Center reported research data from respondents affected by Covid-19, there was a change in business turnover where as many as 63.9% of business actors found a decrease in business turnover of more than 30% and as many as 31.7% of business actors experienced an increase in turnover of less than 30% and there were 1.6% who found an increase in business turnover of more than 30% and the remaining 0.6% who did not find significant changes in their business turnover. However, currently 84.8% of MSME that were previously down have been able to return to normal operations (Coordinating Ministry for Economic Affairs, 2022).

This increasing economic growth must be balanced with good knowledge and skills in managing finances, commonly referred to as financial literacy. The hampering of a country's economic development can be caused by the lack of access to financial institutions and the lack of knowledge about financial literacy and financial products themselves. As a regulator in the financial industry, OJK issued a program to improve financial literacy and inclusion with the National Strategy for Financial Literacy and Inclusion (SNLIK).

Based on the results of SNLIK in 2022, it shows that the financial literacy index of the Indonesian people is 49.68 percent, this index shows that out of 100 people in Indonesia, there are around 49 people who have a good understanding of financial institutions and financial service products (Liska et al., 2022). This figure increased compared to 2019 which was only 38.03 percent. This year's financial inclusion index reached 85.10 percent, higher than the previous SNLIK period in 2019, which was 76.19 percent. This shows

that the gap between the literacy level and the inclusion level is decreasing, from 38.16 percent in 2019 to 35.42 percent in 2022 (Financial Services Authority, 2022).

Financial literacy affects the way a person thinks about financial conditions and affects MSME actors in making strategic decisions in finance and better management for MSME actors. This ability is very necessary for business actors for their business performance and business continuity in order to have better business performance. Thus allowing MSME to experience large business growth.

One of the programs of financial literacy is Financial Inclusion, which is the ability of MSMEs to access services from financial institutions, and to benefit from financial institutions (Terzi, 2015). Higher financial inclusion in MSME will contribute to the financial stability of a country. The program to increase financial inclusion has been regulated in presidential regulation Number 82 of 2016 concerning the National Strategic Financial Inclusion, the aim is to expand public access to financial services, which is expected to contribute to economic growth, reduce poverty levels, reduce income inequality to realize the welfare of the Indonesian people.

Performance is the result of work that has a strong relationship with the organization's strategic goals, customer satisfaction and contributes to the economy. According to (Abor & Quartey, 2010) MSME often experience delays in their development, this is due to various problems such as human resource capacity issues, ownership, financing, marketing and various other issues related to business management. Therefore, there is a need for strategic action to improve the performance of MSME. Another factor that affects the performance of MSME is Financial Technology.

In the current era, the development of information technology supported by the rapid spread of the internet has given rise to several digital financial services that can make it easier for people to make transactions and to obtain financing. For example, Financial Technology which is a technology to support financial services, with the emergence of financial technology, many application innovations in financial services have begun to develop, such as payment tools, loan tools and others that have become popular in this digital era (Irma Muzdalifa, Inayah Aulia Rahma, 2018). financial technology is a technology-based financial service which will certainly make it easier for every transaction to be carried out anywhere and anytime which is expected to support the welfare of MSME

One of the interesting community groups to study is micro business actors, because they need financial literacy and financial technology to manage finances to improve business performance. So that their business can develop so as to improve their welfare and the welfare of the local community. Muara Bulian District is one of the places for micro business actors because Muara Bulian is the capital of Batanghari Regency, which is one of the right reasons to conduct research on micro business actors in Muara Bulian District. This research aims to produce an empirical test of the effect of financial literacy and financial technology on micro-business performance in Muara Bulian District which is mediated by financial inclusion.

Financial Literacy, according to the Organisation for Economic Co-operation and Development (OECD, 2019) financial literacy is a combination of awareness, knowledge, skills, attitudes and behaviors needed to make sound financial decisions so as to achieve individual financial well-being. Financial technology explained by Bank Indonesia is the combination of technology in the financial system that produces new products, services, technologies, or business models and can have an impact on monetary stability, financial system stability, or the efficiency, smoothness, security, and reliability of the payment system. On the one hand, the development of financial technology has proven to bring benefits to consumers, business actors, and the national economy, but on the other hand, it has potential risks that if not properly mitigated can disrupt the financial system. Business Performance is a result of work that has been achieved by a person or organization in carrying out the duties and responsibilities that have been assigned to him during a certain period based on work results, targets, goals or predetermined criteria (Hasibuan, 2017). According to Presidential Regulation of the Republic of Indonesia No. 82 of 2016, financial inclusion is defined as a condition when every member of the community has access to various quality formal financial services in a timely, smooth, and safe manner at affordable costs in accordance with their needs and abilities in order to improve people's welfare.

Research Method

This type of research is descriptive quantitative. The population used in this study were micro business actors in Muara Bulian District and took a sample of 93 respondents. Data collection was carried out by distributing questionnaires with a Likert scale. This study uses a 5-point Likert scale, so in this study the authors used five alternative answers, namely Strongly Agree (SS) (score 5), Agree (S) (score 4), Disagree (KS) (score 3), Disagree (TS) (score 2), Strongly Disagree (STS) (score 1).

Results And Discussion

From the results of data processing it is known that all outer loading values show numbers exceeding 0.7 which are declared valid to be used as indicators that reflect their respective variables, namely financial

literacy (X1), Financial Technology (X2), Financial Inclusion (Z), and Business Performance (Y), as shown in Figure 1.

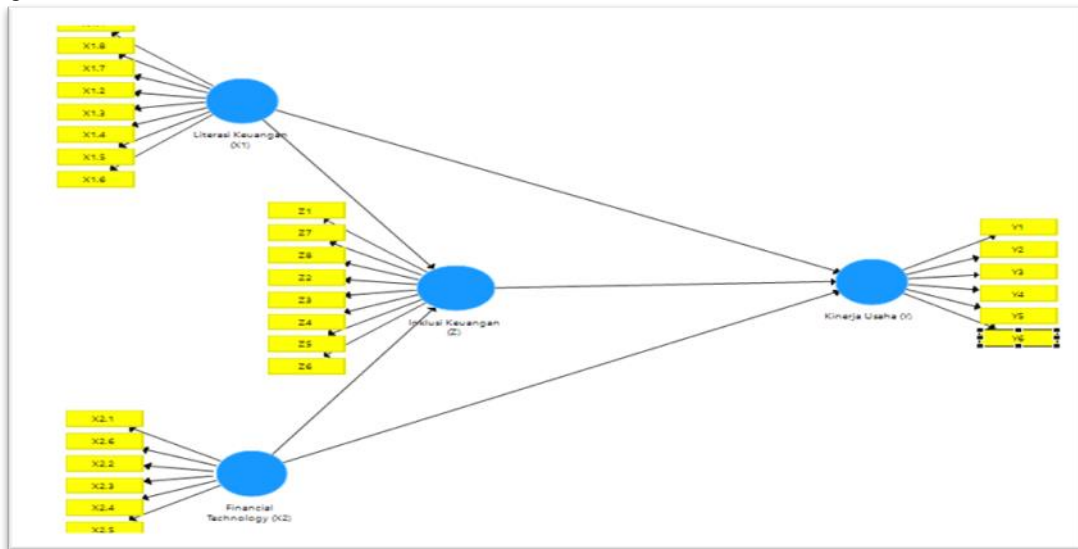


Figure 1. PLS-Algorithm Calculation Path Model

Furthermore, all constructs have produced a Cronbach's alpha value of at least 0.7, which means that these constructs are reliable. The composite reliability value also produces a minimum of 0.7 which indicates that the construct is reliable, as shown in table 1.

Table 1. Cronbach's alpha and composite reliability

Variable	Cronbach's Alpha	Reliability (>0.7)	Composite Reliability	Reliability (>0.7)
Financial Literacy (X1)	0.936	Reliabel	0.940	Reliabel
Financial Technology (X2)	0.801	Reliabel	0.815	Reliabel
Business Performance (Y)	0.764	Reliabel	0.787	Reliabel
Financial Inclusion (Z)	0.835	Reliabel	0.840	Reliabel

Furthermore, the R-Square value is presented as in table 1, showing that the R-Square value of the Business Performance variable is 0.561 and the Financial Inclusion variable is 0.530. so it can be concluded that the variation in changes in the dependent variable that the independent variable can explain is 56%, and the mediating variable is 53%, while other variables outside the proposed model explain the rest.

Table 2. R-Square

Variabel	R-Square
Business Performance (Y)	0.561
Financial Inclusion (Z)	0.530

H1: Hypothesis 1, effect of Financial Literacy on Business Performance

From the results of hypothesis testing, it is obtained that the path coefficient is positively marked at 0.178 and the P-Values value that forms the influence between the financial literacy variable on business performance is 0.048 while the T-Statistic value obtains a positive result of 1.666, thus this result is in accordance with the rule of thumb where the P-Values value is 0.048 < 0.05 while the T-Statistic value is 1.666 > 1.96. Thus it can be concluded that financial literacy has a positive and insignificant effect on business performance.

H2: Hypothesis 2, effect of Financial Technology on Business Performance

From the results of hypothesis testing, a positive path coefficient of 0.187 is obtained and the P-Values value that forms the influence between the financial technology variable on business performance is 0.045 while the T-Statistic value obtains a positive result of 1.701, thus these results are in accordance with the rule of thumb where the P-Values value of $0.045 < 0.05$ while the T-Statistic value is $1.701 > 1.96$. Thus it can be concluded that financial technology has a positive and insignificant effect on business performance.

H3: Hypothesis 3, effect of Financial Literacy on Financial Inclusion

From the results of hypothesis testing, a positive path coefficient of 0.371 is obtained and the P-Values value that forms the effect of financial literacy on financial inclusion is 0.002 while the T-Statistic value obtains a positive result of 2.825, thus these results are in accordance with the rule of thumb where the P-Values value of $0.002 < 0.05$ while the T-Statistic value is $2.825 > 1.96$. Thus it can be concluded that financial literacy has a significant positive effect on financial inclusion. So it can be stated that hypothesis 3 can be accepted and H_0 is rejected because the calculated T value is greater than 1.96 and the P-Values value is less than 0.05.

H4: Hypothesis 4, effect of Financial Technology on Financial Inclusion

From the results of hypothesis testing, a positive path coefficient of 0.427 is obtained and the P-Values value that forms the effect of financial technology on financial inclusion is 0.000 while the T-Statistic value obtains a positive result of 3.476, thus these results are in accordance with the rule of thumb where the P-Values value of $0.000 < 0.05$ while the T-Statistic value is $3.476 > 1.96$. Thus it can be concluded that financial technology has a significant positive effect on financial inclusion. So it can be stated that hypothesis 4 can be accepted and H_0 is rejected because the calculated T value is greater than 1.96 and the P-Values value is less than 0.05.

H5: Hypothesis 5, effect of Financial Inclusion on Business Performance

From the results of the hypothesis test, the positive path coefficient is 0.471 and the P-Values value that forms the effect of financial inclusion on business performance is 0.000 while the T-Statistic value obtains a positive result of 4.530, thus this result is in accordance with the rule of thumb where the P-Values result is $0.000 < 0.05$ while the T-Statistic value is $4.530 > 1.96$. Thus, it can be concluded that financial inclusion has a significant positive effect on business performance. So it can be stated that hypothesis 5 can be accepted and H_0 is rejected because the calculated T value is greater than 1.96 and the P-Values value is less than 0.05.

H6: Hypothesis 6, effect of financial literacy on business performance mediated by financial inclusion.

From the results of the hypothesis test, the positive path coefficient is 0.175 and the value that forms the effect of financial literacy on business performance mediated by financial inclusion can be seen through the T-Statistic test results of $2.256 > 1.96$. then when viewed from the P-Values value obtained a value of $0.012 < 0.05$. from these results it can explain that the effect of financial literacy through financial inclusion has a significant positive effect on business performance.

H7: Hypothesis 7, effect of financial technology on business performance mediated by financial inclusion.

From the results of the hypothesis testing, the positive path coefficient is 0.201 and the value that forms the effect of financial technology on business performance mediated by financial inclusion can be seen through the T-Statistic test results of $2.256 > 1.96$. Furthermore, when viewed from the P-Values value, the value is $0.005 < 0.05$. from these results it can explain that financial technology through financial inclusion has a significant positive effect on business performance.

Effect of Financial Literacy on Business Performance

The results showed that financial literacy (X1) had a positive but insignificant effect on business performance (Y). This is evidenced by the positive path coefficient value of 0.178 and the value (T-Statistic) $1.666 > 1.96$ (T - table) from the P-Values value of $0.048 < 0.05$. this can be explained that the results of research that have been conducted, the better the financial literacy of micro business actors, the better the effect on business performance. Pelak Money micro business actors have good financial literacy will be able to make wise decisions, control expenses and can also manage business finances properly and correctly. The results of this study support research conducted by (Dwitya Aribawa, 2016) (Hilmawati & Kusumaningtiyas, 2021) which states that financial literacy has a positive effect on business performance, this is shown in his research which states that if business actors in the MSME sector have good financial literacy skills, the resulting business decisions and financial management will lead to improved development over time.

Effect of Financial Technology on Business Performance

The results showed that financial technology (X2) had a positive but insignificant effect on business performance (Y). This is evidenced by the positive path coefficient value of 0.187 and the value (T-Statistic) $1.701 > 1.96$ (T - table) from the P-Values value of $0.045 < 0.05$. This can be explained by the results of the research that has been done, the better the understanding of financial technology for micro business actors, the better the effect on business performance. The results of this study support research conducted by (Fadilah et al., 2022) (and Safrianti et al., 2022) showing that Financial Technology has a significant effect on MSME performance, with a positive path coefficient indicating that Financial Technology has a positive effect on MSME performance, This means that the higher the financial technology, the more impact it will have on MSME performance.

Effect of Financial Literacy on Financial Inclusion

The results showed that financial literacy (X1) had a significant positive effect on financial inclusion (Z). This is evidenced by the positive path coefficient value of 0.371 and a value (T-Statistic) of $2.825 > 1.96$ (T - table) from a P-Values value of $0.002 < 0.05$. This can be explained that the results of research that have been conducted, the better the financial literacy of micro business actors, the better the effect on financial inclusion. The results of this study support research conducted by (Susilawati & Puryandani, 2020); (Liska et al., 2022); (Pulungan & Ndururu, 2019) showing that financial literacy has a positive and significant effect on financial inclusion. This means that the better the level of financial literacy, the more financial inclusion increases. This means that students have a high awareness of the importance of financial knowledge and skills both in the present and the future, so that they can use financial products and services wisely and can make the right decisions.

Effect of Financial Technology on Financial Inclusion

The results showed that financial technology (X2) has a significant positive effect on financial inclusion (Z). This is evidenced by the positive path coefficient value of 0.471 and a value (T-Statistic) of $3.476 > 1.96$ (T - table) from a P-Values value of $0.000 < 0.05$. this can be explained that the results of research that have been conducted, the better the understanding of financial technology for micro business actors, the better the effect on financial inclusion. The results of this study support research conducted by (Liska et al., 2022); (Safrianti et al., 2022) stated that financial technology has a positive and significant effect on financial inclusion can be accepted. This means that the higher the use of digital-based financial services will increase financial inclusion where the availability of access and financial services will be wider and easier to reach.

Effect of Financial Inclusion on Business Performance

The results showed that financial inclusion (Z) had a significant positive effect on business performance (Y). This is evidenced by the positive path coefficient value of 0.471 and the value (T-Statistic) $4.530 > 1.96$ (T - table) from the P-Values value of $0.000 < 0.05$. The results of this study support research conducted by (Wira Iko Putri Yanti, 2019); (Sanistasya et al., 2019); (Choiriyah et al., 2022) states that financial inclusion has a positive and significant effect on business business performance Financial inclusion is an analysis that has a relationship to the use, services, and benefits of financial institution services for business people. The existence of access to financial institution services has a role that can maximize precise and accurate information

Effect of Financial Literacy on Business Performance through Financial Inclusion

The research results show that financial literacy (X1) has an effect significant positive effect on business performance (Y) which is mediated by financial inclusion (Z). Based on the table above, it shows that the path coefficient value is positive at 0.175 and the (T-Statistic) value is $2.256 > 1.96$ (T – table) from the P-Values value is $0.012 < 0.05$. So it can be concluded that the relationship between financial inclusion variables is able to mediate the influence of financial literacy on business performance. The results of this research support research conducted by (Choiriyah et al., 2022) which can be concluded that the relationship between financial inclusion variables is able to mediate the influence of financial literacy on the performance of MSMEs. MSME actors who carry out, utilize and use the services of financial institutions can maximize prosperity and minimize obstacles and gaps in operations and improve performance. This also influences the development of MSMEs in order to strengthen MSMEs to continue running smoothly. So it can be concluded that if financial literacy increases, actors can understand how to access capital sources within their capabilities and increase sales, profits and performance of MSMEs.

Effect of Financial Technology on Business Performance through Financial Inclusion.

The research results show that financial technology (X2) has a significant positive effect on business performance (Y) which is mediated by financial inclusion (Z). Based on the table above, it shows that the

path coefficient value is positive at 0.201 and the value (T-Statistic) is $2.256 > 1.96$ (T – table) from the P-Values value is $0.004 < 0.05$. So it can be concluded that the relationship between financial inclusion variables is able to mediate the influence of financial technology on business performance. The results of this research support research conducted by (Tan & Syahwildan, 2022). The results of hypothesis testing support that financial inclusion mediates Fintech and Performance. This explains that the better the understanding and use of Fintech by MSEs, the better financial inclusion will positively encourage MSE performance.

Conclusions

Financial Literacy does not have a significant effect on business performance directly but is mediated by financial inclusion. This means that the more literate micro business actors are, namely financial knowledge, attitudes and behaviour, the greater their financial inclusion will be and the better their business performance will be. Likewise, the correct use of financial technology influences business performance through financial inclusion for micro-business actors. Therefore, to improve business performance, strong financial literacy and financial technology are needed, which will also strengthen financial inclusion and ultimately financial prosperity.

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