THE INFLUENCE OF ENVIRONMENTAL DYNAMISM, DYNAMICS CAPABILITY, AND FINANCIAL LITERACY ON THE PERFORMANCE OF MICRO, SMALL, AND MEDIUM ENTERPRISES (MSMEs) IN MAKASSAR CITY

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Abstract

Micro, Small, and Medium Enterprises (MSMEs) are crucial for the Indonesian economy, especially in Makassar. They contribute significantly to economic activities and public income. According to data from the Makassar City Cooperatives and MSMEs Office in 2021, there are 4,816 registered MSMEs in various sectors such as trade, industry, non-industrial, and others. The trade sector, including fashion and culinary, is particularly dominant in Makassar. However, the performance of MSMEs has experienced a decline. This study focuses on exploring the factors that affect their performance, specifically environmental dynamism, which encompasses environmental changes, government regulations, shifts in consumer demand, innovation, and technology. The adaptability of MSMEs to these environmental changes is a crucial aspect of their performance. Additionally, financial literacy also plays a significant role in improving their performance. The study aims to investigate the influence of environmental dynamism, adaptability, and financial literacy on the performance of MSMEs in Makassar. The research method employed is quantitative, involving interviews, questionnaires, and observations of 100 MSMEs in the trade sector. The research findings indicate that environmental dynamism and financial literacy have a significant impact on the performance of MSMEs, whereas adaptability does not show the same level of significance. Furthermore, the study highlights the importance of financial literacy in the financial management and decision-making processes of MSMEs. This research provides valuable insights into the factors that influence the performance of MSMEs and offers relevant recommendations to enhance the sustainability of the MSME sector in Makassar.

Keywords: Dynamics Capability, Environmental Dynamism, Financial Literacy, Performance of MSMEs

1. INTRODUCTION

Based on the phenomenon that occurs in the performance of an MSME, there are several factors underlying the performance of an MSME. One of the factors is environmental dynamism. According to Okeyo (2014), all businesses, including MSMEs, can be restricted in their movement by environmental conditions such as environmental changes. Machmud & Sidharta (2016) stated that environmental dynamism such as incentives and government regulations positively affect the performance of MSMEs. Besides regulations, the impact of changes in consumer nature such as changes in demand, innovation, and technology can affect the performance of MSMEs (Wijbenga & van Witteloostuijn, 2007). Mukherji & Mukherji (2016) stated that environmental
dynamism forces MSMEs to be able to survive, find solutions, and be able to prepare for the impact of further environmental changes. Permana & Ellitan (2020) and Haleem & Jehangir (2018) argued that environmental dynamism positively affects the performance of MSMEs. This is different from the research by Sandra & Purwanto (2017) that environmental dynamism does not have a significant effect on the performance of MSMEs. The study shows that environmental changes, including government regulations and changes in consumer demand, affect the performance of MSMEs. A study by Machmud & Sidharta (2016) showed a positive influence of environmental dynamism, while other research such as Permana & Ellitan (2020) found an insignificant influence.

Another factor that influences is dynamic capabilities. Dynamic capability becomes the most appropriate approach in an increasingly dynamic competitive environment (Teece et al., 1997; Wang & Ahmed, 2007). Dynamic capability is a mindset of continuously integrating, reconfiguring, renewing, and recreating core capabilities in response to a constantly changing environment to achieve and maintain competitive advantage (Wang & Ahmed, 2007). Further, Wang & Ahmed (2007) highlight that dynamic capabilities are built through the development of three capabilities, namely: adaptive, absorptive, and innovative. Many studies have proven that dynamic capabilities help MSMEs to maintain and recreate competitive advantages based on a dynamic environment. According to Permana & Ellitan (2020), dynamic capabilities have dimensions such as the ability to sense and the ability to absorb information. Teece (2007) argued that this sensing ability is characterized by a company's ability to discover, interpret, and pursue business opportunities that can impact the speed and accuracy of innovation. In addition, an MSME also requires learning or absorptive capacity. According to Hernández-Linares et al. (2021), a company requires absorptive capacity, this ability is needed to adopt information and use or implement it to modify the company's resources and capabilities so that the company runs correctly. Permana & Ellitan (2020) and Hernández-Linares et al. (2021) said that dynamic capabilities have a positive impact on the performance of MSMEs. This is different from the research by Takahashi et al. (2016) and Eikelenboom & de Jong (2019) that dynamic capabilities do not impact the performance of MSMEs. In addition, financial literacy is considered essential for MSMEs. Koitaba et al. (2016) emphasize the importance of financial knowledge in increasing transparency, efficiency, and company accountability. Research by Eniola & Entebang (2017) and Hussain et al. (2018) shows that financial literacy positively impacts the performance of MSMEs, although there are studies like Iramani et al. (2018) that found its impact insignificant.

In the existing body of knowledge, there is still a noticeable gap in understanding the specific dynamics of environmental dynamics, adaptability, and financial literacy and how they collectively impact the performance of Micro, Small, and Medium Enterprises (MSMEs) in the City of Makassar. While previous studies have examined these factors separately, there is a need for a comprehensive examination that integrates these elements within the unique context of Makassar's MSME landscape.

The research has two main objectives: firstly, to analyze the interaction between environmental dynamics, adaptability, and financial literacy and how they collectively impact the performance of MSMEs in Makassar; and secondly, to derive practical insights that can guide strategic recommendations for promoting sustainability and growth in the MSME sector in this specific geographical context. By exploring these objectives in detail, the
study aims to contribute valuable knowledge to both academic discussions and practical initiatives that support the vitality and resilience of MSMEs in Makassar.

2. LITERATURE REVIEW
2.1. Resources Based View

The Resource-Based View (RBV) theory was first pioneered by Wernerfelt in (1984). The RBV theory posits that a company's resources and capabilities are crucial as they form the foundation of the company's competitive abilities and performance. The assumption of the RBV theory is about how a company can compete with others by managing the resources it has in accordance with the company's capabilities to achieve a competitive advantage.

Muharam (2017) also suggests that the concept of the Resource-Based View Theory emphasizes that companies with a competitive advantage based on resources and capabilities will exist longer in running their business compared to those based solely on product/market positioning. Based on the resource-based approach concept, companies can achieve sustainable competitive advantage and earn superior profits by owning and controlling strategic assets. According to Ferreira et al. (2011), a company's success is greatly determined by the resources it possesses and the company's capabilities to transform those resources into economic benefits. Company resources (firm resources) can be tangible (for example: factories, land, vehicles, raw materials, and machinery) or intangible (for example: brand, reputation, expertise, corporate culture, structure, perceptions, and owned processes).

2.2. MSME Performance

Performance is the result that can be achieved by an individual or a group of people within an organization, in accordance with each person's authority and responsibilities in order to achieve the organization's objectives. Performance is a depiction or condition regarding the achievement of the implementation of an activity or program in realizing the targets, goals, vision, and mission of the organization. Good performance across all sectors, including finance, production, distribution, and marketing, is an absolute requirement for MSMEs to continue to survive. With good performance, MSMEs are also expected to become increasingly solid as the backbone of the economy and will play an increasingly important role in the national economy. MSMEs are an identity that continues to receive attention and always gets priority by the government.

According to Hasibuan (2014), MSME performance is a result achieved by an individual or organization in carrying out the tasks entrusted to them, based on skills, experience, diligence, and time. Meanwhile, according to Aribawa (2016), MSME performance is the result achieved by an individual and can be completed with the tasks of that individual within the MSME over a certain period, and will be linked to the value or standard measures of the MSME where the individual works.

Based on the given explanations, we can infer that MSME performance refers to the overall outcome attained in relation to the predetermined goals, targets, objectives, or criteria within a business entity. This performance is measured based on the asset and turnover criteria as defined by the law.
3. RESEARCH METHODS

3.1. Research Design

This study is a causality quantitative research that uses primary data. Data collection methods are carried out through interviews, questionnaires, and observations. The population focused on in this study is 2,628 MSMEs in the trade sector in the city of Makassar. To determine a representative sample size, this study uses Slovin's formula with a precision level of 10% ($\alpha=0.1$). The calculation of Slovin's formula resulted in a sample size of 96.33, which was then rounded up to 100 as the number of samples that will be used in this study.

3.2. Data Analysis Technique

The data analysis technique employs multiple linear regression with the Statistical Package for the Social Sciences version 25 (SPSS) software. First, a validity test is conducted to assess the effectiveness of the research instrument. This is followed by a reliability test to measure the stability of the research instrument in obtaining results. Then, an F-test is performed to understand whether the model is feasible and whether the independent variables jointly can affect the dependent variable. Subsequently, a t-test is conducted to understand the influence of independent variables on the dependent variable. Lastly, a determination test is carried out to ascertain how much the independent variables influence the dependent variable. This study uses indicator variables from Okeyo (2014) as a measure of environmental dynamism, namely government regulation, product innovation, demand, and technology. The indicators of dynamic capability adopt the research of Hernández-Linares et al. (2021), which are sensing and learning. The financial literacy variable adopts dimensions from the research of Siswanti (2020), which are financial knowledge, financial attitude, and financial behavior.

4. RESULTS AND DISCUSSION

4.1. Validity and Reliability

The SPSS application was used to conduct validity tests on the Likert scale for the variables of environmental dynamism, dynamic capability, and financial literacy. Ghozali (2021) found that all items had an $r$ value greater than the $r$ table value. The $r$ table value for 100 respondents was 0.1654. Therefore, the respondents' answers and the question items are considered valid.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Item</th>
<th>Corrected item total-Correlation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Dynamism</td>
<td>ED1</td>
<td>0.838</td>
</tr>
<tr>
<td></td>
<td>ED2</td>
<td>0.830</td>
</tr>
<tr>
<td></td>
<td>ED3</td>
<td>0.774</td>
</tr>
<tr>
<td></td>
<td>ED4</td>
<td>0.775</td>
</tr>
<tr>
<td>Dynamic Capability</td>
<td>DC1</td>
<td>0.814</td>
</tr>
<tr>
<td></td>
<td>DC2</td>
<td>0.766</td>
</tr>
<tr>
<td></td>
<td>DC3</td>
<td>0.771</td>
</tr>
<tr>
<td></td>
<td>DC4</td>
<td>0.800</td>
</tr>
<tr>
<td>Financial Literacy</td>
<td>FL1</td>
<td>0.821</td>
</tr>
<tr>
<td></td>
<td>FL2</td>
<td>0.795</td>
</tr>
</tbody>
</table>
Based on Table 1, it can be seen that all items of the placement variable questions are declared valid, as all r values are > r table (0.1654).

The reliability test in this study assesses the consistency of measurement results when repeated. The Cronbach Alpha analysis technique was used to conduct the test on the empirical indicators. Reliable data has a Cronbach Alpha coefficient greater than 0.6 (Supramono, 2003).

Table 2. Reliability Test Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Dynamism</td>
<td>0.815</td>
</tr>
<tr>
<td>Dynamics Capability</td>
<td>0.811</td>
</tr>
<tr>
<td>Financial Literacy</td>
<td>0.839</td>
</tr>
<tr>
<td>Performance</td>
<td>0.803</td>
</tr>
</tbody>
</table>

Based on Table 2, it is known that all the data used are reliable, as the Cronbach Alpha values obtained from this test are all > 0.6.

4.2. Multiple Linear Regression Test

The multiple linear regression test is used to predict whether two or more X variables have an effect on the Y variable, and to what extent the two independent variables (X) influence the dependent variable (Y).

Table 3. Regression Equation

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>2.468</td>
<td>1.238</td>
<td></td>
<td>1.994</td>
</tr>
<tr>
<td>Environmental Dynamism</td>
<td>.112</td>
<td>.118</td>
<td>.117</td>
<td>.946</td>
</tr>
<tr>
<td>Dynamics Capability</td>
<td>.265</td>
<td>.128</td>
<td>.249</td>
<td>2.066</td>
</tr>
<tr>
<td>Financial Literacy</td>
<td>.592</td>
<td>.110</td>
<td>.447</td>
<td>.877</td>
</tr>
</tbody>
</table>

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

a. If all variables remain constant, the performance of MSMEs in the city of Makassar will have a value of 2.468.
b. The regression coefficient for the Environmental Dynamism variable (X1) is 0.112. This means that if Environmental Dynamism increases by 1%, the MSME Performance (Y) will increase by 0.112.

c. The regression coefficient for the Dynamic Capability variable (X2) is 0.265. This means that if Dynamic Capability increases by 1%, the MSME Performance (Y) will increase by 0.265.

d. The regression coefficient for the Financial Literacy variable (X3) is 0.592. This means that if Financial Literacy increases by 1%, the MSME Performance (Y) will increase by 0.592.

4.3. Hypothesis Testing

4.3.1. F-Statistic Test

The criterion for hypothesis testing using the F-statistic is if the F significance value is < 0.05, then the alternative hypothesis is accepted, which states that all independent variables simultaneously and significantly influence the dependent variable.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>466.151</td>
<td>3</td>
<td>155.384</td>
<td>40.959</td>
<td>&lt;.001</td>
</tr>
<tr>
<td>Residual</td>
<td>360.395</td>
<td>95</td>
<td>3.794</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>826.545</td>
<td>98</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: TOTAL

Based on the F-test results, the F-value of 40.959 is greater than the F-table value of 2.70 with a significance level of 0.000 or < 0.05. Therefore, it can be concluded that simultaneously, the variables Environmental Dynamism, Dynamic Capability, and Financial Literacy significantly influence the MSME Performance variable.

4.3.2. t-Statistic Test

The t-statistic test for the Environmental Dynamism variable yielded a t-value of 0.946, which is less than the t-table value of 1.98472, with a significance value of 0.346. This result indicates that the independent variable of Environmental Dynamism has an influence, but it is not significant on the dependent variable, MSME Performance, because its significance value is greater than 0.05.

The t-statistic test for the Dynamic Capability variable yielded a t-value of 2.066, which is greater than the t-table value of 1.98472, with a significance value of 0.042. This result indicates that the independent variable Dynamic Capability has a significant influence on the dependent variable, MSME Performance, because its significance value is less than 0.05.

The t-statistic test for the Financial Literacy variable yielded a t-value of 0.877, which is less than the t-table value of 1.98472, with a significance value of 0.00. This result indicates that the independent variable Financial Literacy has a significant
influence on the dependent variable, MSME Performance, because its significance value is less than 0.05.

4.3.3. Coefficient of Determination

If the R square value is close to the number 1, then the independent variables are capable of providing the information needed to predict the variation of the dependent variable.

<table>
<thead>
<tr>
<th>Model Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

Source: SPSS v.29

From the table above, it is known that the value of the Adjusted R Square is .550, meaning that the independent variables influence the dependent variable by 55%, while the remaining 45% is influenced by other variables.

4.4 Discussion

4.4.1. Environmental dynamism on MSME performance

Environmental dynamism has an impact on micro, small, and medium enterprises (MSMEs). A constantly changing and uncertain business environment can have a significant effect on MSMEs. When the business environment changes rapidly, MSMEs face various challenges, such as increasing competition from other competitors. They have to struggle to maintain their market share and often need to adjust their strategies quickly.

Additionally, technological changes are also a significant factor in environmental dynamics. MSMEs need to continuously monitor the latest technological developments, as technology can change the way they operate, interact with customers, and even develop new products and services. MSMEs that can keep up with technological advancements have a better chance of surviving and thriving.

Changes in consumer preferences and behaviors are also an integral part of environmental dynamics. MSMEs need to understand how consumer preferences are changing and strive to meet their needs. This may involve developing new products or services or adjusting marketing strategies. Furthermore, economic fluctuations, such as interest rates, inflation, and market demand changes, can impact MSME performance. Therefore, MSMEs need to have smart financial strategies to deal with unexpected economic changes.

Overall, environmental dynamics are a challenge that MSMEs must face. However, with strong adaptability, careful monitoring of changes, and a willingness to learn and innovate, MSMEs can successfully navigate environmental changes and remain sustainable in their business.

The results of this study align with the theory of organization and environment, which underlies that environmental changes in organizations will form strengths in the organization. Thus, if an organization experiences frequent changes, it will become
trained in change, allowing the organization to survive in changing environments for future periods (Önday, 2016).

4.4.2. Dynamic Capability on MSME performance

Dynamic capability is a company's ability to integrate, build, and reconfigure internal and external competencies in the face of rapid environmental changes (Teece, 2007). Given the evolving technology and science, society, as the main consumer of MSMEs, is now more selective in choosing the products they need, so business actors need to adjust to environmental changes. Indeed, a company's success depends not only on its resources but also on its ability to adapt to industry contingencies. Dynamic capability functions as a means of adapting performance to achieve better suitability with environmental needs. Therefore, dynamic capability is very important for the competition and success of MSMEs.

Based on the data from the hypothesis testing analysis, the author concludes that dynamic capability does not influence MSME performance. This means that MSMEs cannot integrate, build, and reconfigure internal and external competencies in the face of rapid environmental changes, resulting in low performance by MSMEs. In other words, MSME owners or managers cannot capture environmental changes such as market trends, resulting in low MSME performance. In addition, in previous studies, dynamic capability was often used to measure the performance of large companies (MBOGA et al., 2023; Nyachanchu et al., 2017), which will certainly differ if tested on MSMEs.

4.4.3. Financial Literacy on MSME performance

Financial literacy is the ability of individuals or owners of Micro, Small, and Medium Enterprises (MSMEs) to understand, manage, and make wise decisions related to their financial aspects. This ability includes understanding various financial concepts and practices, such as financial planning, cash flow management, investing, and debt management. The importance of financial literacy in MSMEs cannot be ignored (Siregar & Azzahra, 2022). MSME owners with good financial literacy can make more accurate and efficient business decisions. They can plan well, identify sources of income and expenditure, and set clear financial goals. In addition, financially literate MSME owners can better manage their debt and avoid falling into serious financial problems. The research results are in line with the study by Eniola & Entebang (2017) that financial literacy significantly affects MSME performance. The results of this study are consistent with the theory of planned behavior, which underlies that financial literacy is a factor that can influence the financial decisions of organizations, so organizations have a direction for their future performance. According to Eniola & Entebang (2017), the level of financial knowledge of MSME owners will provide understanding, then this understanding will become skills and principles so that someone can determine their own financial situation with financial situation as their goal. Understanding and implementation of financial literacy will impact the increased ability of the company to provide direction for the future for MSME owners (Iramani et al., 2018).

Overall, financial literacy plays an important role in enhancing the performance of MSMEs and helps them become more empowered in managing their finances, making wise decisions, and achieving sustainable growth in the business world. Therefore, it is important for MSME owners to continuously improve their understanding of financial
concepts and engage in financial education or training to enhance their ability to manage their business finances effectively.

5. CONCLUSION

The business environment is subject to constant and unpredictable changes, which significantly impact Micro, Small, and Medium Enterprises (MSMEs). These changes bring about various challenges, such as increased competition, advancements in technology, shifts in consumer preferences, and economic fluctuations. In order to navigate through these dynamic changes and ensure long-term sustainability, MSMEs must possess strong adaptability, closely monitor these changes, and embrace innovation.

The concept of dynamic capability, which refers to a company's ability to quickly adjust to environmental changes, plays a crucial role in the success of MSMEs. However, research suggests that dynamic capability does not have a significant influence on the performance of MSMEs. This discrepancy may be attributed to the inability of MSME owners to effectively identify and respond to environmental changes, or the implementation of inadequate adjustments. Nonetheless, dynamic capability remains essential for the overall competition and success of MSMEs in the ever-evolving business landscape.

Financial literacy emerges as a fundamental factor in enhancing the performance of MSMEs. Owners who possess strong financial literacy are able to make more accurate business decisions, effectively manage their finances, and avoid serious financial problems. Research findings highlight the vital role of financial literacy in elevating the performance of MSMEs. A deep understanding of financial concepts, combined with active participation in financial education or training, empowers MSMEs to effectively manage their finances and contribute to sustained business success.

REFERENCES


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