

FINANCIAL LITERACY AND PERFORMANCE OF MICRO, SMALL AND MEDIUM ENTERPRISES: A LITERATURE REVIEW

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Abstract

This research aims to examine various articles regarding the influence of financial literacy on the performance of MSMEs. The literature used in this research comes from indexed journal databases searching for the keywords "financial literacy" and "performance". This research found various factors involved in measuring the influence of financial literacy on MSME performance consists of: dimensions of financial literacy, namely: knowledge, attitudes and behavior; factors that influence financial literacy are age, gender, education, length of work and income; strategies to increase financial literacy through training; MSME performance are: financial and non-financial performance. The impact of financial literacy on MSME performance is influenced by many factors. This research provides input for policy makers to increase the level of financial literacy of MSME business actors so that MSME performance becomes better, competitive and has a competitive advantage.

Keywords: Financial Literacy, MSME performance, Literature Review

1. INTRODUCTION

Micro, small and medium enterprises (MSMEs) have a significant role in increasing economic growth ((Hayati & Fatarib, 2022);(Devi et al., 2023);(Juminawati et al., 2021);(Shelly et al., 2020)), creating jobs ((Gamtenadze, 2023);(Elasrag, 2013);(Latchem, 2018);(Li & Rama, 2015);(Nandeewaraiah & Ramana, 2019)) and increase income ((Hardiyanti & Wai Si, 2022);(Amani et al., 2022);(Muslim, 2022);(Noorali & Gilaninia, 2017)). MSMEs are important contributors to global economic development, representing 90% of businesses worldwide (Pedraza, 2021). MSMEs contribute to developing the regional economy because the number of MSMEs in the regions has increased (Risnawati et al., 2022). The significance of MSMEs is increasingly being recognized because the number of MSMEs is more than 90% of commercial companies (Mhlongo et al., 2023).

MSMEs are able to provide non-agricultural jobs for regional communities (Shelly et al., 2020). MSMEs in India employ around 40% of the workforce by creating employment opportunities for skilled and semi-skilled people (Rathore & Mathur, 2019). MSMEs in India contribute significantly to job creation, accounting for around 30% of total employment (Uma & Anbuselvi, 2023). MSMEs in India provide employment to nearly 60 million people through 26 million businesses (Rajeevan et al., 2015). MSMEs

provide private sector employment opportunities, accounting for two-thirds of jobs in the European Union (Johnstone, 2023).

MSMEs contribute to increasing income through increasing GDP, output, production and consumption (Nandeewaraiah & Ramana, 2019). MSMEs play a role in increasing income through investment, technological changes and flexibility compared to large companies (Risnawati et al., 2022). MSMEs contribute to increasing incomes through job creation and innovation, accounting for the majority of businesses worldwide (Restrepo-Morale et al., 2017). Small and medium enterprises (SMEs) play a role in increasing income and generating income and employment in developed countries (Noorali & Gilaninia, 2017).

The low level of financial literacy among business actors is an obstacle for MSMEs to develop (Fatoki, 2021);(Aritonang et al., 2023). MSME players face various problems related to low financial literacy, including: financial difficulties and making wise financial decisions ((Harianti et al., 2021);(Meitriana et al., 2022)), financial management (Susan, 2020), capital problems (Aritonang et al., 2023), long-term planning (Bancoro, 2023), business sustainability (Ferli, 2023), funding limitations ((Ferli, 2023);(Suwarsi et al., 2022);(Meitriana et al., 2022);(Astari & Candraningrat, 2022);(Sisharini et al., 2019);(Hirawati et al., 2021)) thus hampering the development of MSMEs (Sisharini et al., 2019).

Increasing the financial literacy of MSMEs can be achieved through various strategies. One approach is the development of a comprehensive financial training program that provides MSME business actors with an understanding of financial literacy so that MSME players can carry out good financial management and make targeted decisions (Bancoro, 2023). Sharing best practices and providing avenues for financial consultation can also contribute to improving financial literacy among MSMEs (Maswin & Sudrajad, 2023). In addition, policymakers can play a role by making financial literacy training mandatory and implementing policies that support increasing SMEs' financial knowledge (Addo et al., 2022). Workshops and seminars that focus on financial literacy can be included in the annual MSME program to help increase the financial knowledge of MSME business actors (Day et al., 2022). Small business regulators should collaborate with accounting professional organizations to organize financial literacy workshops, seminars and short courses for MSME business actors (OR Togun et al., 2023). Appropriate financial management training and development of simple financial application programs can be implemented to increase MSME financial literacy (Harianti et al., 2021). It is also important to emphasize the role of financial knowledge among MSMEs in increasing access to finance and risk propensity, as these factors are closely related to the sustainability of MSMEs (Rahmajati & Kusuma, 2023). Overall, increasing financial literacy among MSMEs can lead to better financial management, improved performance and long-term sustainability.

Researchers have proven that there is a significant influence of financial literacy on improving the performance of MSMEs (Maswin & Sudrajad, 2023);(Rahmajati & Kusuma, 2023);(Parmitasari & Rusnawati, 2023);(Leatemia, 2023);(OR Togun et al., 2023);(Widyastuti et al., 2023)). Improving financial literacy among MSMEs can lead to improved business performance and sustainability (Awwaliyah et al., 2023). Studies (Rahmawati et al., 2023) found that the influence of financial literacy on the use of

technology has an impact on improving the performance of MSMEs. Therefore, this research aims to conduct a literature study regarding various factors that influence financial literacy on the performance of MSMEs. This research contributes to the government making policies regarding efforts to increase financial literacy for MSME business actors so that MSMEs can achieve better performance.

2. RESEARCH METHODS

This research uses review literature to examine various factors that influence financial literacy on MSME performance. The literature used in this research comes from indexed journal databases by searching for the keywords "financial literacy" and "performance". Articles related to financial literacy and MSME performance were reviewed and summarized in this research.

3. RESULTS AND DISCUSSION

Review literature regarding the various factors involved in measuring the influence of financial literacy in improving MSME performance is as follows:

3.1. Dimensions of Financial Literacy

Dimensions of financial literacy that are important for MSMEs include financial knowledge, financial attitudes, financial behavior (Widyastuti et al., 2023). This dimension contributes to the knowledge and skills of MSMEs in areas such as loans, budgets, operations, financing and investment activities ((Anshika et al., 2021);(Hartanti et al., 2023). Micro, Small and Medium Enterprises (MSMEs) need financial literacy knowledge to manage their businesses effectively. Financial literacy for MSMEs includes the awareness, knowledge, skills, attitudes and behavior needed to make healthy financial decisions. Financial literacy regarding loans and budgeting is very important for MSMEs to access finance. Inadequate financial literacy can lead to inaccurate financial decisions and problems in the sustainability of MSMEs. MSME entrepreneurs generally have the appropriate level of financial knowledge, behavior and attitude, but struggle to practice these concepts consistently. Access to bank financing is a major problem for MSMEs, hampering their growth and expansion (Top & Ozbek, 2022).

According to (Remund, 2010) Financial literacy is a person's ability to understand financial concepts and be able to solve financial problems with adequate capacity and self-confidence. One of the obstacles that affects the performance and sustainability of MSME businesses is the limited knowledge, attitudes and behavior of MSME actors, resulting in less firm, transparent and unprofessional handling of financial problems. Financial literacy is knowledge and skills in managing financial resources, making it easier for MSMEs to make appropriate and effective decisions.(Victor, 2019). According to research (Ye & Kulathunga, 2019);(Eniola & Entebang, 2017);(Sulistianingsih & Santi, 2023) financial literacy is an important source of knowledge for decision making. Financial literacy is basic financial knowledge and the ability to implement it in business (Lusardi et al., 2009).

Financial literacy provides an understanding of finances and helps entrepreneurs deal with financial problems and utilize various products to make the right decisions because financial literacy is an important tool in financial management, which in turn helps business actors work better than competitors (Anshika & Singla, 2022). An entrepreneur's financial literacy plays an important role in the relationship between lenders and borrowers (Burchi et al., 2021). Understanding financial literacy is necessary for MSMEs to avoid financial risks (Irman et al., 2021). Financial literacy is important for MSME players to have in managing finances so that they do not experience financial problems and make it easier for MSME players to get financial assistance from formal financial institutions to easily choose, access and use types of financing. Formal financial institutions can be used by MSMEs to save, invest and make loans for business development and sustainability (Lestari et al., 2020).

3.2. Factors influencing the level of financial literacy

Factors that influence MSME financial literacy include age, education, gender, length of work, income, gross profit ratio level, and self-control (Aeni & Innayah, 2022). Age and education have a positive and significant effect on financial literacy, with higher levels of education leading to higher levels of financial literacy (Anshika et al., 2021). Gender, length of work and income play a role in financial literacy (Mpaata et al., 2021). The level of the company's gross profit ratio was found to be the determinant that most influences financial literacy. Additionally, self-control moderates the relationship between financial literacy and saving behavior, with individuals with low self-control needing more financial literacy to have a positive effect on their savings behavior (Hirawati et al., 2021). The factors that influence the financial literacy of MSMEs are age, level of formal education and business income (Suryanto & Rasmini, 2018).

Age has been found to impact the financial literacy of MSMEs. In a study by, it was observed that age was a determining factor in the financial literacy of female MSMEs in Pacitan. This research found that individuals with high financial literacy were able to make financial decisions more quickly, indicating that age plays a role in financial decision-making ability (Ignatius, et al., 2023). In contrast to research (Suryanto & Rasmini, 2018) found that age had no effect on literacy levels finance among MSMEs in Bandung. These findings suggest that age may have varying effects on MSME financial literacy, depending on the specific context and demographic characteristics of MSME actors (Rafik & Rahayu, 2020).

Education has a significant impact on the financial literacy of MSMEs. Research has shown that the level of education and skills among MSMEs is low, which hinders their competitiveness in the global economy (Aeni & Innayah, 2022). Financial education plays an important role in increasing the financial literacy of MSMEs, both in terms of managing finances intelligently and making accurate decisions (Fauziyah & Sulastri, S, 2022). The education of MSME actors has been found to influence their financial literacy and the competitive advantage of Creative MSMEs (Suwarsi et al., 2022). Furthermore, the level of financial literacy among MSMEs has been classified as low literacy, indicating the need for improvement (Hardiyanti & Wai Si, 2022). Efforts to increase financial literacy, especially in the field of Islamic finance, have been proven to positively influence the intentions of MSME players to seek capital for business expansion (Majid

& Nugraha, 2022). Continuous education and collaboration between regulatory authorities, industry players and associations are needed to increase financial literacy among MSMEs.

Gender has been found to have a moderating effect on financial literacy in MSMEs. In Kano State, Nigeria, gender had a positive moderating effect on bookkeeping literacy, but a negative moderating effect on budgeting literacy and debt management literacy (Alfa et al., 2023). However, in the Special Region of Yogyakarta, gender does not influence financial literacy in Creative MSMEs (Aeni & Innayah, 2022).

Length of work has been found to have an impact on the financial literacy of MSMEs. Research has shown that the longer the involvement of MSMEs, the higher the level of financial literacy (Aeni & Innayah, 2022). In addition, the level of education has also been identified as a factor that influences the application of accounting in the preparation of financial reports, indicating a relationship between education and financial literacy (Rafik & Rahayu, 2020). These findings suggest that as MSMEs gain more experience and knowledge through their years of work and education, their financial literacy increases. Therefore, it can be concluded that the length of work does influence the financial literacy of MSMEs, with longer involvement in MSMEs potentially leading to higher levels of financial literacy. Income has a significant influence on the financial literacy of MSMEs (Nugraha et al., 2020).

3.3. Strategies to improve financial literacy

Financial literacy for MSMEs can be improved through various strategies. One approach is the development of comprehensive financial training programs that focus on areas such as debt management, savings utilization, and cash management. In addition, the use of financial technology (Fintech) can support the financial needs of MSMEs by providing access to various financial tools and services. Digital literacy is also important in reducing the negative impact of Fintech on sales and increasing MSME turnover. Therefore, it is recommended that MSMEs allocate a portion of profits to educate employees and that the government provide support to increase financial literacy among the MSME industry (Bancoro, 2023).

The financial literacy of MSME players can be improved through the development of training modules by policy makers. Financial literacy for MSMEs can be improved through an educational approach, using an experiential learning model (Aeni & Innayah, 2022). Financial literacy training has been found to increase entrepreneurs' ability to make informed financial decisions, trust financial institutions, and increase entrepreneurial growth (Atandi et al., 2017).

(Drexler et al., 2014) states that training and simpler rules of practice can produce economically meaningful improvements for MSMEs. Training that meets basic financial needs is more appropriate and efficient for economic development and MSME business growth. (Eniola & Entebang, 2017) found that understanding finance influences financial performance because it helps MSMEs to choose and use various financial services that are beneficial for business sustainability.

3.4. MSME Performance

According to (K. Singh et al., 2019) Financial performance indicators such as Return on Assets (ROA) and Return on Equity (ROE) can be used to measure financial performance objectively. Non-financial performance indicators such as market share and innovation can be used to assess managers' ability to achieve company goals and objectives as well as overall business success (S. Singh et al., 2016). Business performance according to (Najib & Kiminami, 2011) can be measured through profitability.

Venkatraman and Ramanujam (1986) in (Iramani, Fauzi, AA, Wulandari, DA, 2018) states that there are three concepts of company performance. The first is organizational effectiveness. Second, business performance includes financial and operational performance. Third is financial performance. (Wang, 2011) states that performance is success in achieving goals and objectives. (Avlonitis & Salavou, 2007) states that there are two categories of performance improvement, namely financial performance and marketing performance. (Gunday et al., 2011) explains that perceptions of financial performance can have an influence as measured by managers' perceptions of company performance. (Iramani, Fauzi, AA, Wulandari, DA, 2018) financial performance is related to profit growth, which shows the ability of MSME managers to evaluate financial performance indicators such as return on assets (ROA) and return on investment (ROI).

MSMEs were founded to achieve certain goals (Anshika & Singla, 2022). Goals can be achieved if good performance can be obtained. Therefore, performance is used as an indicator to measure financial well-being over a certain period of time (Cherugong, 2015). A company's performance is measured based on its ability to achieve planned results and measured based on projected output, which includes financial success, market performance, and profits (Savanna, 2014)

3.5. The influence of financial literacy on MSME performance

Financial literacy contributes to the continuity of MSME businesses (Meressa, 2023). Financial literacy influences the sustainability performance of agribusiness entrepreneurs (Obi-Anike et al., 2023). Financial literacy and the use of technology through social media can overcome financial problems so that they have an impact on obtaining micro credit and the performance of MSMEs (Widyastuti & Hermanto, 2022). Access to formal credit is directly influenced by financial literacy and credit requirements, which in turn influence the performance of the MSME industry. Financial literacy, the use of technology for finance and financial inclusion have an influence on improving the performance of MSMEs in Medan (Gunawan et al., 2023). Sharia financial literacy has an influence in increasing the growth of SMEs in Palembang (Astari & Candraningrat, 2022).

Digital financial literacy influences financial performance. Digital financial literacy influences financial behavior. Financial behavior influences financial performance. Financial literacy influences financial performance mediated by financial behavior (Awwaliyah et al., 2023). Financial literacy influences entrepreneurial competence and resilience. Entrepreneurial competence influences entrepreneurial resilience and sustainable performance of Saudi SMEs. Entrepreneurial resilience influences sustainable

performance. Financial literacy and competence influence business continuity mediated by entrepreneurial resilience in all Saudi Arabian SMEs (Seraj et al., 2022).

Entrepreneurial resilience influences sustainable performance. Financial literacy influences sustainable performance and there is a relationship between financial literacy and sustainable performance which is moderated by entrepreneurial resilience in Saudi Arabian SMEs (Alshebami & Murad, 2022). Financial literacy and access to digital finance have a positive relationship. Access to digital finance and performance have a positive relationship (Frimpong et al., 2022). Financial literacy (financial education, cash forecasting, and bookkeeping) influences the business performance of female entrepreneurs (Tumba et al., 2022). Financial literacy has not been able to be applied to production decision making. The first three years of MSMEs failed due to several reasons, namely: low sales, low financial literacy, debts not used for business (John, 2022). Management knowledge capacity and financial literacy influence performance (financial and non-financial) which is mediated by creativity and speed in solving the problems being faced (Bawono et al., 2022).

Financial technology influential on financial performance. Financial literacy and financial technology influential on financial performance (Astari & Candraningrat, 2022). Digital financial literacy influences digital financial inclusion. Digital financial inclusion influences the performance of MSMEs. Digital financial literacy influences the performance of MSMEs through digital financial inclusion (Pratiwi & Rahayu, 2022). Financial literacy and sustainable entrepreneurial activities have a positive relationship in 30 countries, namely: Argentina, Austria, Brazil, Canada, China, Croatia, Estonia, Finland, France, Georgia, Germany, Hong Kong, Hungary, India, Indonesia, Italy, Jordan, Korea, Latvia, Malaysia, Mexico, Netherlands, Poland, Portugal, Russia, Saudi Arabia, South Africa, Thailand, Turkey, England (Burchi et al., 2021). Financial literacy influences the performance of SMEs (Yakob et al., 2021).

Financial training has no effect on the level of financial literacy before and after training. MSME performance increases after receiving financial training (Damayanti et al., 2018). Financial literacy influences the performance of MSMEs mediated by the financial behavior of MSMEs in Malang City (Sudarmiati et al., 2021). Sharia financial literacy influences sharia financial inclusion and business growth. Islamic financial inclusion and business growth have a positive relationship (Trianto et al., 2021). Access to finance and financial literacy have a positive relationship. Access to finance and the performance of MSMEs are moderated by financial literacy and have a positive relationship (Fatoki, 2021). Increasing the level of financial literacy has a positive relationship with SME innovation performance, through increased risk taking (Campos Valenzuela et al., 2021).

Financial resources and financial literacy can increase financial and non-financial growth due to support from private organizations (Md M Hossain, 2020). Financial literacy, access to finance, and financial risk attitudes have a positive effect on SME performance. Financial literacy on SME performance mediated by access to finance and financial risk attitudes has a positive relationship (Buchdadi et al., 2020). Financial literacy has a positive effect on innovation. Financial literacy has a positive effect on knowledge competency. Financial literacy has a positive effect on performance (Wahyono & Hutahayan, 2021). Financial literacy has a positive effect on MSME

financial access. Financial literacy has a positive effect on the growth of MSMEs. Access to financing as an intervening variable has a positive effect on MSME growth (Susan, 2020). Financial literacy, financial technology and intellectual capital have a significant positive effect on the performance of MSMEs in Depok City (Hamidah et al., 2020).

Financial literacy influences performance. Financial literacy is useful for SMEs to gain adequate financial knowledge and the ability to prepare business financial strategies and improve performance (Satiti, 2020). Financial literacy influences the performance and sustainability of MSMEs (Kurniasih et al., 2020). Financial literacy has a positive effect on entrepreneurial performance (Usama & Yusoff, 2018). Financial literacy, access to finance and financial risk attitudes influence sustainability. Financial literacy plays a role in predicting access to finance and financial risk attitudes. The relationship between financial literacy and SME sustainability is partially mediated by access to finance and attitudes towards financial risk (Ye & Kulathunga, 2019).

Human capital has a positive effect on competitive advantage. Financial literacy has a positive effect on the performance of MSMEs. Human capital has a positive effect on the performance of MSMEs. Competitive advantage has a positive effect on the performance of MSMEs (Farida et al., 2019). Financial literacy has a positive effect on the performance of MSMEs. Financial inclusion has a positive effect on the performance of MSMEs (Sanistasya et al., 2019). Financial literacy has a positive effect on financial access and company performance. Access to financial services has a positive effect on the actual use of financial services. The use of financial services has a positive effect on company performance. Access to financial services influences the performance of financial services companies which is mediated by the use of financial services companies (Mabula & Ping, 2018). Financial literacy influences the performance of SMEs (Masiyamoorthy et al., 2017).

4. CONCLUSION

This research is a literature review regarding various factors that influence financial literacy on the performance of MSMEs. Various factors were found to be involved in influencing the impact of financial literacy on MSME performance, including:

- 1) Dimensions of financial literacy, namely: knowledge, attitudes and behavior.
- 2) Factors that influence financial literacy are age, gender, education, length of work and income.
- 3) Strategies to increase financial literacy through training
- 4) MSME performance is: financial and non-financial performance.
- 5) The impact of financial literacy on MSME performance is influenced by social media, financial technology, marketing communications, financial inclusion, access to credit, effective strategic decision making, business experience, financial behavior, entrepreneurial competence, entrepreneurial resilience, self-efficacy, innovation, management knowledge capacity, problem solving skills, competitive advantage, financial training, religiosity behavior, risk, financial resources, private organizational support, market orientation, learning orientation, intellectual capital, human capital, artistic orientation, entrepreneurial orientation, and financial services.

This research provides input for policy makers to increase the level of financial literacy of MSME business actors so that MSME performance becomes better, competitive and has a competitive advantage.

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