

FinTech's Role in Improving MSME Performance: Financial Literation and Behavior Intention

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ABSTRACT

The development of technology and information presents a variety of service products for the community. Financial Technology is one of the online services that is currently helping the community a lot. This technology is engaged in the financial and economic industries. Financial technology is a combination of technology with financial or financial services which eventually evolved towards a business model from conventional to online, which initially required face-to-face payments and brought a certain amount of cash, now can make remote transactions by making payments that can be made in a matter of seconds only. The role of FinTech in Micro, Small, and Medium Enterprises is one of the solutions to improve the performance of MSMEs with the existence of FinTech literacy in the MSME sector and financial behavioral extension in the MSME sector. By realizing the benefits felt by MSMEs, it can maximize the use of technology maximally and encourage their interest in using, utilizing financial technology to improve business performance.

Keywords: *Financial Technology (FinTech), Financial Literacy, Behavior Intention and Performance of MSMEs*

1. INTRODUCTION

The development of the micro, small and medium enterprises (MSMEs) sector plays an important role in the Indonesian economy. The role of MSMEs is seen as a lifesaver in the process of national economic recovery, both in boosting the rate of economic growth and in absorbing labor [1]. From a world perspective, it is recognized that micro, small and medium enterprises (MSMEs) play a very vital role in economic development and growth, not only in developing countries but also in developed countries. In mid-1997 the economic crisis that hit Indonesia became a bad momentum for the Indonesian economy which had an impact on the country's economy, including various trades carried out between countries. However, this is not the case with Micro, Small, and Medium Enterprises (MSMEs), which at that time were able to withstand the shocks of the economic crisis [2]. The development and growth of SMEs are one of the crucial driving forces for economic development in many countries around the world. Based on experience in developed countries, it shows that MSMEs are a source of production and technological innovation, the growth in the number of creative and innovative entrepreneurs, and the creation of a skilled and flexible workforce in the production process to face the

rapid changes in market demand [3]. With the improvement and development of MSMEs, it is hoped that they can increase the Gross Domestic Product (GDP) and absorb more new workers to reduce unemployment and poverty. Due to a large number of MSMEs that have sprung up, competition has become tighter[4].

The Covid-19 pandemic has a significant impact on the economy of Malang City. Regional Original Income (PAD) also experienced a decline of 20.78 percent, due to the economy which has stalled until now in mid-2020 (merdeka.com). One of the sectors that have been hard hit by the Covid-19 pandemic is SMEs. The Head of Section for Business Development and Strengthening of the Malang City Industry and Trade Cooperative Office (Diskopindag) explained that in Malang there were around eight thousand SMEs and during the Covid-19 pandemic, 20 percent of them or around 1,600 UKM experienced suspended animation and could not produce or running his business. This condition occurred during March to early September 2020 and the most affected were textile and fashion SMEs, while the food and beverage sector continued with their business during the Covid-19 pandemic even though the turnover obtained had decreased by around 70 percent (jatimtimes.com), this condition causes a decline in the performance of MSMEs, such as a decline in profitability, productivity, and the market.

Strategies for restoring MSME businesses to improve MSME performance are urgently needed, this is because MSMEs are a sector capable of suppressing levels of inequality both economically and socially, such as increasing people's purchasing power of domestic commodities. However, in its development, many SMEs experience several obstacles. The main problems that are quite hindering in the SME business include limited capital, technology, marketing, limited access to market opportunities, and human resources who have low soft skills [5]. The era of adaptation to new recovery must be addressed wisely by MSME business players, one of which is in terms of financing for business recovery due to Covid-19 by utilizing the role of Financial Technology (FinTech).

[6] reveals that FinTech is not a service provided by banks but a new business model that is very helpful for the community. FinTech provides services in the form of financial transactions without having to have an account as in general banking. FinTech is still regulated by Bank Indonesia even though it is not a financial institution such as banking, to protect consumers or the public. Bank Indonesia explained that FinTech can replace the role of formal financial institutions such as banks. In terms of payment systems, FinTech plays a role in; 1) provide a market for business actors, 2) become a tool for payment, settlement, and clearing, 3) assist in more efficient investment implementation, 4) mitigate risks from conventional payment systems, 5) assist parties who need to save, borrow funds and equity participation [36].

To overcome these limitations, financial technology innovation provides long-term opportunities for the MSME sector. According to Bank Indonesia, FinTech is the result of a combination of financial services and technology that changes the business model from conventional to moderate. In Bank Indonesia regulation number 19/12 / PBI / 2017 it is explained that FinTech is the use of financial system technology that produces new products, services, technology and/or business models and has an impact on monetary stability, financial system stability, efficiency, smoothness, security, and reliability of the payment system.

Improving the performance of MSMEs by utilizing the role of FinTech needs to be supported by good financial literacy. Financial literacy is an understanding of money and financial products that a person can apply to their financial choices to make informed decisions about how to handle their finances. Having financial literacy skills enables individuals to make informed decisions about their money and minimize the possibility of being misled into financial matters [7]. The higher the level of financial knowledge, the better the management of the business that is owned. Financial literacy is seen as an important instrument for the success of SMEs because it helps to understand and evaluate the information needed to make daily decisions that have a financial impact on day-to-day company management [8].

Financial literacy affects the way a person thinks about

financial conditions and affects strategic decision-making in terms of finances and better management for business owners [9]. [10] defines financial behavior, namely studying how humans behave in a financial determination, in particular, studying how psychology affects financial decisions, companies, and financial markets. With the development of financial technology, SMEs are required to increase financial literacy by studying and understanding every service, product, and financial decision they will implement. This is intended so that the benefits of financial access, including FinTech, can be maximally felt and do not harm MSME players. Financial literacy itself is a skill in terms of one's finances. A person who has good financial literacy will be able to see money from a different point of view and be able to control his financial condition. Furthermore, financial literacy is knowledge of compound interest, differences in nominal and real value, basic knowledge of risk diversification, the time value of money, and others [11].

Efforts to use financial technology (FinTech) to improve the performance of MSMEs require behavioral intentions from MSME owners. The intention to behave as an effort is realized as an attempt to achieve clearly defined goals or objectives. Intention usually involves avoiding short-term preferences to achieve long-term preferences. The intention is the best predictor of looking at the dynamics of behavior [12]. Intention to behave reflects the likelihood that someone will act following that behavior. In the context of financial management, the intention to manage finances properly will encourage someone to carry out financial planning, control over expenses, savings, and investments for the future.

According to [13], behavioral intention is someone's desire to carry out a certain behavior. The desire to use FinTech is strongly correlated with the benefits that will be obtained as well as the ease of use. The results of previous research indicate that behavioral intention is a good predictor of the use of technology by users of information systems. [14] show that perceived usefulness as a FinTech impression has a positive and significant relationship with Behavioral Intention. The research of [15] also supports that Perceived Usefulness has a positive and significant relationship with Behavioral Intention, this is the rational nature of humans that everything beneficial to themselves will encourage behavior for their interests. In principle, that Perceived Usefulness is related to Behavioral Intention is also stated from the results of research conducted by [16]. Another impression generated by FinTech is Perceived as Easy to use (perceived ease). [14] show a positive and significant relationship between Perceived ease to use and Behavioral Intention. Research conducted by [15] also supports that Perceived ease to use has a positive and significant relationship with Behavioral Intention. However, as there are rumors that the development of FinTech raises several problems in its implementation. [17] research shows that the experience of SMEs is a factor that can affect the growth of FinTech.

2. LITERATURE REVIEW

2.1 *Financial Technology*

Financial technology or financial technology or commonly referred to as FinTech is defined as technological innovation in financial services that can produce business models, applications, processes, or products with material effects related to the provision of financial services. Bank Indonesia Regulation number 19/12 / PBI / 2017 explains that FinTech is the use of financial system technology that produces new products, services, technology, and/or business models and can have an impact on monetary stability, financial system stability, efficiency, smoothness, security, and reliability. payment system [18]. [6] explains that FinTech is not a service provided by banks but a new business model that is very helpful for the community. FinTech provides services in the form of financial transactions without having to have an account as in general banking.

Based on [19], Financial Technology (FinTech) is a combination of technology and financial features or it can also mean innovation in the financial sector with a touch of modern technology. According to [20], FinTech is a very fast-moving and dynamic industry where there are many different business models. According to [21], Financial Technology, also referred to as FinTech, is a new financial service model developed through information technology innovation.

2.2 *Financial Literacy*

According to [22] financial literacy How can someone be able to understand financial concepts and have a sense of self-confidence for their management in short-term and long-term decision-making efforts. [23] revealed that financial literacy can be measured using indicators of basic knowledge of personal finance, savings, and loans, insurance, and investment. [11] define financial literacy as financial knowledge and the ability to apply it (knowledge and ability). Thus, financial literacy is knowledge about finance and the ability to use this knowledge (apply it) to make good financial decisions and in the end, can improve the financial well-being of individuals and their families [24].

2.3 *Behavioral Intention*

Intention is an internal individual effort based on the individual's desire to perform or achieve certain behaviors. The individual's intention to behave has limited time in realizing real behavior. There are four main elements of intention, namely the target of the intended behavior (target), action (action), the situation when the behavior is displayed (context), and the time when the behavior is displayed (time) [12]. According to [25], behavioral intention is a desire (interest) for someone to do a certain behavior. Someone will do a behavior if they have a behavioral intention to do it. Interest can also indicate a behavior in the future and

repeat it at a later date. The results of previous research indicate that behavioral intention is a good predictor of technology use by system users. [26] stated that behavior intention is determined by attitudes, subjective norms and conscious behavior control. The tendency to choose to take action or not, the intention is determined to what extent the individual chooses to carry out certain behaviors and receives support from other influential people.

2.3 *MSME Performance*

SMEs are important as a place for business development for entrepreneurs and fund providers as a solution to overcoming unemployment, job creation, innovation, and long-term economic development [27]. In running their business, SMEs always try to achieve their business goals. Goals are the result of the final process of all SME operational activities, so efforts are needed to achieve them. [28] stated that SMEs' performance can be measured from firm size, firm age, skilled labor, location, type of manufacturing ownership, co-operations, and foreign investment. Policies on financial services, credit facilities and management, and marketing management also play an important role in improving SMEs' performance. The measurement of business performance puts forward the aspects of profitability, productivity, and market perceptions of the owner/manager of SMEs concerning the suitability of measures. The achievement of the business, as well as the level of satisfaction of the measures against the achievement of performance.

3. DISCUSSION

3.1 *The Role of Financial Technology (FinTech) in MSME Financial Literacy as an Effort to Improve MSME Performance*

FinTech is always innovating, such as developing flexible products and better ways to solve problems faced by MSMEs, such as difficulties in gaining access. FinTech also makes financial services more affordable and accessible, improves customer experience and accelerates usage and engagement, builds a foundation including digital identity verification to make it easier, collaborative customer due diligence, data sharing, and payment schemes that can accelerate several financial services. According to [29] the increase in ownership of financial products and services is a reflection of the increase in financial literacy caused by the development of FinTech. Along with the development of financial technology, it has an impact on the use of FinTech to help their business activities by MSME owners. [30] revealed that financial literacy has a close relationship with the performance of a business, financial information is useful for evaluating the success of previous decisions and is used to determine the current business position [31] find that there is a relationship between financial literacy and business performance. Entrepreneurs who have good

financial literacy skills are better able to review and review financial reports so that they will influence decision-making related to their business and directly affect the overall success of the business.

The factors that make MSMEs implement FinTech are several obstacles or obstacles in implementing FinTech, namely human resources. Not all employees are familiar with technology or don't understand how FinTech is, so it makes business people need time to implement FinTech in their business. Apart from that, the four sources in this study said that there are still consumers or customers who are accustomed to or more comfortable using manual transactions, but many have also started using financial technology. The lack of socialization from the FinTech side also creates obstacles for business actors so that business actors must find out for themselves what FinTech is. Another obstacle is that when the network is unstable, work can be disrupted and cause work delays [18].

Collaboration between banking and financial technology (FinTech) can contribute to increasing MSME financial literacy. Moreover, so far the government has been aggressively campaigning for the national non-cash transaction movement. So that a cashless society is formed in transactions. The use of FinTech services by smartphone users can be the answer to the government's efforts to build a cashless society. This is because the number of cellphone users in Indonesia is already very large. "Smartphone penetration in Indonesia has exceeded bank account penetration in Indonesia. It can be concluded that there is a role for FinTech in improving Financial Literacy in MSMEs. However, the application or use of FinTech must be followed by an increase in financial literacy by the public, including MSME players. Such as checking the legality and licensing of FinTech, compliance with business needs, and risk management. So that the benefits of FinTech can be felt properly and can help the sustainability of MSMEs in West Kalimantan. In addition, with good financial literacy, MSMEs will be able to manage their sources of financial funds well and can pay attention to the value of money in the future so that long-term business sustainability can be felt.

3.2 The Role of Financial Technology and Interest in Financial Conduct as Efforts to Improve the Performance of MSMEs

The impact felt by SMEs in implementing FinTech in their businesses, provides benefits for SMEs, and not only SMEs but customers are also given convenience in this regard. Based on the research conducted, SMEs stated that the most important impact felt was facilitating payment transactions and satisfying customers as well as providing convenience in financial management. With the existence of FinTech, it can be easier to input sales transaction income so that it can provide time efficiency for SMEs. With the application of FinTech, SMEs will also be greatly assisted by the electronic money feature

that automatically enters the accounts of business actors which can facilitate deposits. The use of FinTech services such as financial controls implemented by some of the SMEs studied will make it easier to record financial transactions so that SMEs can easily understand financial management. The use of FinTech provides benefits for MSME players in recording sales transactions that automatically provide weekly or monthly sales reports that can make it easier for MSME players to see their business performance. Of course, the advantages of applying FinTech to MSME players are to facilitate and speed up transactions with customers, so that transactions that occur are more accurate. For MSME players who only apply FinTech for payments, it will make it easier for customers who make transactions through a payment gateway application so that customers don't have to be difficult to make payments.

The role of FinTech has an impact on improving businesses for MSMEs. With the role of FinTech, MSME players can easily understand financial management with ease in knowing the income and expenses that occur in transactions that occur. Real results were obtained in the field from the reasons for MSMEs to apply FinTech, namely the ease, practicality, and speed of transactions and records. Another thing from implementing FinTech is that it can provide convenience to customers. A more efficient and effective transaction processing activity which is the reason for MSMEs to apply FinTech, the development of the times also demands that business actors implement this payment gateway-based FinTech. Success is defined in terms of performance [32],[33],[34]. To improve the performance of SMEs, it is necessary to behave in the era of the Industrial Revolution 4.0 by utilizing information technology in operational and marketing activities. The results of [35] show that the use of social media (information technology) has a beneficial impact on the performance of MSMEs, including customer service performance, marketing, internal operations, and ultimately sales performance. Based on the results of the analysis in this study, the use of social media (information technology) plays a very important role in improving the performance of MSMEs.

4. CONCLUSION

Financial technology is a new thing for the development of MSMEs in Indonesia because with financial technology there are several problems regarding the financing, the process of applying for capital, services to consumers and producers, making loans easier. Financial technology can provide several financial solutions specifically for several small businesses in the MSME sector who want to develop and build their business. The role of financial literacy performed by MSMEs in creating good financial management, such as managing in obtaining funds and using funds efficiently so that they can contribute to the improvement of financial behavior shown through expenditure control which can be done by physical supervision, historical

accounting, and using budgetary supervision. cannot be separated from financial technology that can be maximally utilized by MSME owners. Improving the performance of MSMEs through financial performance requires a greater emphasis on the aspect of financial behavior because financial behavior is very important to train MSME owners to be responsible for managing finances.

The benefits of FinTech encourage SMEs to use them in their business practices. The financial behavior of MSME owners by realizing the benefits felt if they can maximize the use of technology maximally encourages their interest in using, utilizing financial technology to improve their business performance. So that the problems that arise to use financial technology do not reduce the interest of MSME owners to use it as long as it is able to provide benefits for their business. However, despite the many benefits obtained from the use of financial technology, MSMEs also need to pay attention to the risks that arise from the use of FinTech.

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