



The Effect of Financial Literacy and Financial Capital on Business Performance in Small Medium Micro Enterprises (MSMEs) in Central Java (on MSMEs in Grobogan Regency)

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Abstract. This study aims to analyze the effect of financial literacy and financial capital on the business performance of MSMEs in Central Java. Financial literacy and financial capital are very important for business performance because to achieve good performance in business activities, business owners need to understand how to manage finances well. The populations in this study are MSMEs in Central Java, especially in the Grobogan Regency. The sampling technique used was the purposive sampling method. The type of data used was primary data, namely data obtained directly from the source. Data collection methods were questionnaires and interviews. Then the data were analyzed using the classical assumption test, validity test, reliability test, descriptive test, multiple linear regression test, and hypothesis testing. The results of the study prove that financial literacy has a significant positive effect on MSMEs business performance and financial capital has a significant positive effect on MSMEs business performance. Simultaneously financial literacy and financial capital also have a significant positive effect on MSMEs business performance. From the results of this study, it is hoped that readers can develop knowledge and be able to implement this knowledge in the business sector because the business will not be able to develop properly if their human resources cannot manage finances properly.

Keywords: Financial Literacy · Financial Capital · Business Performance · MSMEs

1 Introduction

Micro, Small, and Medium Enterprises (MSMEs) are activities that have many important roles to improve the Indonesian economy. The existence of MSMEs in each region can have a major influence on the increase in Indonesia's population [1]. This business group has a large number and can prove that it is very resistant to the economic crisis that hit [1]. Micro, Small, and Medium enterprises (MSMEs) contribute to creating jobs, improving people's welfare, and distributing income in the territory of Indonesia [2].

MSMEs usually experience delays due to various conventional problems that have not been fully resolved, such as human resource capabilities, ownership, finance, marketing, and various other problems related to business management so MSMEs have difficulty competing with large companies [2]. In 2022, the spread of MSMEs was recorded at more than 65 million in Indonesia, this very drastic increase in the number of MSMEs was due to the use of good technology and communication facilities, and banks also provided fund allocations for the people so that the number of MSMEs from year to year will continue to increase, however. With the increasing number of MSMEs in Indonesia, the competition that will be faced will be even tighter, especially competition in exports. From data from the Office of Small and Medium Enterprises Cooperatives in Central Java Province, the distribution of MSMEs is 141,633 units. The spread of MSMEs in Grobogan Regency now has 2,066 MSMEs units located in 19 subdistricts. The Grobogan Regency Government continues to provide guidance and empowerment to MSMEs with the aim that MSMEs in Grobogan Regency can develop their business optimally [3]. So that this makes MSMEs in Grobogan Regency increasingly rapid and has stable economic income and can increase local tax revenues.

Most of the MSMEs actors in Indonesia lack the understanding and ability to manage finances [4]. MSMEs actors should be equipped with skills and knowledge in managing their finances so that they can advance their business well [4]. In accounting, business owners will know about finance, namely about the capital system used at the beginning of doing business, how to get capital, and how to manage finances correctly [5]. In this strategy, financial capital and financial literacy are factors that can assess how well business actors understand finances in managed companies [5].

Financial capital can be regarded as expertise regarding the financial resources used by business owners in starting and managing a business. Major causes of the failures of new ventures included lack of resources, lack of support, lack of financial capital, environmental uncertainty, and weak institutional support [6]. In managing a business failures are commonly caused by a lack of resources, lack of support, lack of financial capital, environmental uncertainty, and weak institutional support. Generally, business owners build businesses with capital and good financial management, namely by knowing about financial literacy [7].

Financial literacy is a skill that must be mastered by individuals, especially those who have businesses, to be able to manage their financial systems properly and correctly. Financial literacy is related to individual abilities and skills to manage personal or business finances [2]. With better financial literacy, business owners managing financials will be more optimal and make the right decisions, which will affect better business performance [8].

Many factors affect financial literacy and financial capital. [9] state that financial literacy affects the business performance of MSMEs. This is also supported by research conducted [5] that financial capital has a significant effect on MSMEs business performance. This research is very interesting to explain because capital is needed for MSMEs business actors in running a business. But the difference between previous researchers and the current research is that this research was conducted using a data processing tool in the form of SPSS and is only intended for business actors in Grobogan Regency, so the

author takes the title “The Effect of Financial Literacy and Financial Capital on Business Performance in MSMEs in Central Java (On MSMEs in Grobogan Regency)”.

2 Theoretical Background

2.1 Financial Literacy

According to [2] financial literacy is defined as knowledge, skills, and beliefs that influence individual attitudes and behavior in improving the quality of decision-making, to achieve prosperity. The Theory of Planned Behavior which is a theory put forward by [10] explains that financial literacy will affect a person in deciding for MSMEs owners in doing business. By conducting business management, one of which is the attitude of business actors in managing their business, because the attitude of business actors will make someone manage their financials well in their business.

2.2 Financial Capital

According to [5] financial capital is the ability to obtain financial resources to build and maintain real capital, which allows companies to play a productive role in the economy. In Economics, Empowerment theory states that financial capital is very important for MSMEs because the main activities to be carried out through the MSMEs program are one of the three sources of capital financing, income distribution, increased economic growth, and can reduce poverty in the community. Meanwhile, the government can also provide financing loans through banks, cooperatives, financial institutions, microfinance institutions, and others.

2.3 Business Performance

Business performance is the result of the work of MSMEs actors starting from the establishment of the business until the achievement of the planned goals through several works and assessments that have been determined by the company [11] Good performance in all sectors including financial, production, distribution, and marketing is an absolute requirement for MSMEs to be able to continue to level and develop and to optimize the goals of all MSMEs [12].

3 Methodology

In this study, the researcher uses a type of quantitative research, where quantitative method is a research method based on the philosophy of positivism, which is used to examine a particular population or samples, which is generally taken randomly, and data is collected using research instruments, then analyzed quantitatively/statistically to test the established hypothesis [14]. In this study, researchers will take a sample of MSMEs data in Grobogan Regency (Fig. 1 and Table 1).

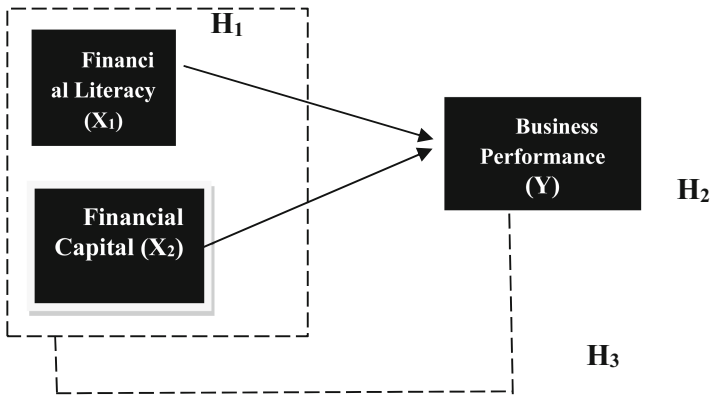


Fig. 1. Research Model

Table 1. Results of Questionnaire Distribution

Information	Amount	Percentage
Spread	120	120%
Return	100	100%
Not return	14	14%
Disabled	6	6%
Which can be processed	100	100%

Source: Processed Data, 2022

4 Result and Discussion

4.1 Result

Normality Test: The normality test aims to test whether the independent variable and dependent variable have a normal or abnormal distribution. The results of the normality test show that all research variables have statistical values > 0.05 so it can be concluded that all variables in the study are normally distributed [15]. The results of the normality test can be seen in the Table 2.

From the Table 2, there are Asymp Sig values. $0.200 > 0.05$ (Asymp. Sig. > 0.05) then the data can be said to be normally distributed.

Table 2. Normality Test Results

Variable	Kolmogorov – Smirrov	<i>p</i> -value (sig)	Keterangan
<i>U. Residual</i>	0,057	0,200	Normal

Source: SPSS Processed Data, 2022

Multicollinearity Test: According to [14] the multicollinearity test aims to test whether the regression model found a correlation between the independent (independent) variables. A good regression model should not have a correlation between the independent variables. Multicollinearity can be seen from the tolerance values > 0.10 and VIF < 10 .

The results of the multicollinearity test in the Table 3 can be seen that all correlations between the independent variables do not occur multicollinearity, in this study there is a tolerance value > 0.10 , and VIF values < 10 .

Heteroscedasticity Test: If the residuals have the same variance, it is called homoscedasticity and if the variance is not the same or different, it is called heteroscedasticity. There is no heteroscedasticity if the data points are spread out and do not form a certain pattern. A good regression equation if there is no heteroscedasticity (Fig. 2).

From the picture above, it can be seen that the Y-axis points do not form a certain pattern, and the data points are spread out. So it can be concluded that there is no heteroscedasticity in the regression model in this study.

Validity Test: A validity test is a test that serves to sell whether a measuring instrument is valid or invalid [16]. The measuring instrument referred to here is the question in the questionnaire. A questionnaire can be said to be valid if the questionnaire can express with certainty what will be studied [17]. Validity testing in research can be done by looking at the level of significance, and if the significance level is valid [16].

In the Table 4, the results of the analysis have a value of Sig. (2-tailed) is less than 0.05 (< 0.05). Thus it can be concluded that all questions from the variables X1, X2, and Y are declared valid.

Table 3. Multicollinearity Test Results

Independent Variable	Tolerance	VIF	Conclusion
Financial Literacy	0,448	2,231	Not occur multikolinearitas
<i>Financial Capital</i>	0,448	2,231	Not occur multikolinearitas

Source: SPSS Processed Data, 2022

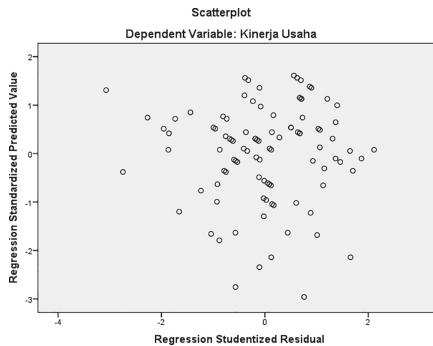


Fig. 2. Heteroscedasticity Test Results.

Table 4. Validity Test Results

		Financial Literacy	Financial Capital	Business Performance
Financial Literacy	Pearson Correlation	1	.743**	.803**
	Sig. (2-tailed)		.000	.000
	N	100	100	100
Financial Capital	Pearson Correlation	.743**	1	.621**
	Sig. (2-tailed)	.000		.000
	N	100	100	100
Business Performance	Pearson Correlation	.803**	.621**	1
	Sig. (2-tailed)	.000	.000	
	N	100	100	100

** . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS Processed Data, 2022

Descriptive Test: Descriptive analysis describes the summary which includes the mean, maximum, minimum, standard deviation, and others.

In the Table 5, it can be seen that the X1 variable has a min value of 29, a max of 50, a Mean of 42.70, and a standard deviation of 4.624. The variable X2 has a min value of 17, a max of 30, a mean of 25.28, and a standard deviation of 2.836. Variable Y has a min value of 21, a max of 35, a mean of 29.54, and a standard deviation of 3.362.

Multiple Linear Regression Test (R2): Multiple linear regression analysis technique will test the hypothesis which states that there is an influence between the independent variables on the dependent variable. Regression analysis is used to predict how far the change in the values of the dependent variable is. The following is the formula for multiple linear regression analysis [17].

Table 5. Descriptive Test Results

Variable	N	Min	Max	Mean	Std. Deviation
Financial Literacy	100	29	50	42,70	4,624 2,836
Financial Capital	100	17	30	25,28	
Business Performance	100	21	35	29,54	3,362
Valid N (listwise)	100				

Source: SPSS Processed Data, 2022

Table 6. Multiple Linear Regression Test Results (R2).

Model	Uns.B	t	Sig
(Constant)	4,247	2,137	0,035
Financial Literacy	0,554	8,437	0,000
Financial Capital	0,265	2,607	0,045

Source: SPSS Processed Data, 2022

Based on the results of multiple linear regression analysis in the Table 6, the coefficients for the independent variables $X_1 = 0.554$ and $X_2 = 0.265$.

t-Test: According to [19], the t-test is used to partially test the effect of the independent variable on the dependent variable.

With the table value = 0.05 and $df (N-K-1) = 97$, the table value is 1.98472. Based on the Table 7, the partial test results can be explained as follows:

- Testing the Hypothesis of Financial Literacy Has a Positively and Significant Effect on MSMEI Business Performance. Based on the results of the t-test (partial) in the regression model, the results of the comparison between count and table show a count of 8.437 while the t-table of 1.98472. From these results, it can be seen that $count > table$ which is $8.437 > 1.98472$, it can be concluded that H_0 is rejected. H_a is accepted, meaning that partially the financial literacy variable has a positive and significant effect on the business performance variables.
- Testing the Financial Capital Hypothesis Has a Positive and Significant effect on MSMEs Business Performance. Based on the results of the t-test (partial) in the regression model, the comparison between the t-count and t-table shows that the count is 2.607 while the t-table is 1.98472. From these results, it can be seen that $count > t-table$ ($2,607 > 1,98472$), it can be concluded that H_0 is rejected, H_a is accepted, meaning that partially the financial capital variable has a positive and significant effect on the business performance variable.

F-Test: The F test is used to test the effect of the independent variables together on the dependent variable [19] (Table 8).

It can be seen that t-count is 88.310 by comparing the t-table = 0.05 with the degree-less of freedom of the numerator (the number of $X = 2$ and the degree of the denominator $(N-K-1) = 97$), the t-table is 3.09. F-count is greater than t-table ($88.310 > 3.09$) then

Table 7. The t-Test Results

Model	Uns.B	t	Sig
(Constant)	4,247	2,137	0,035
Financial Literacy	0,554	8,437	0,000
Financial Capital	0,265	2,607	0,045

Source: SPSS Processed Data, 2022

Table 8. F Test Results

Variable	Fcount	Ftable	Sig.	Description
Financial Literacy and <i>Financial Capital</i>	88,310	3,09	0,000	Ho rejected Ha accepted

Source: SPSS Processed Data, 2022

Ho is rejected and Ha is accepted, meaning that there is a significant effect between the independent variables (X) together on the dependent variable (Y). Which means that it can be said that simultaneously as the independent variables of financial literacy and financial capital have a positive and significant effect on the dependent variable of business performance.

4.2 Discussion

The Effect of Financial Literacy on MSMEs Business Performance

From the hypothesis that financial literacy partially has a positive and significant effect on MSMEs business performance, the comparison between the t-count and t-table shows that the t-count is 8.437 while the t-table is 1.98472. From these results, it can be seen that $t\text{-count} > t\text{-table}$ which is $8.437 > 1.98472$, it can be concluded that Ho is rejected. Ha is accepted, meaning that partially the financial literacy variable has a positive and significant effect on the MSMEs business performance variable.

The Effect of Financial Capital on MSMEs Business Performance

From the hypothesis that financial capital partially has a positive and significant effect on MSMEs business performance, the comparison between t-count and t-table shows that t-count is 2.607 while t-table is 1.98472. From these results, it can be seen that $t\text{-count} > t\text{-table}$ is $2.607 > 1.98472$, it can be concluded that Ho is rejected, Ha is accepted, meaning that partially the financial capital variable has a positive and significant effect on the MSMEs business performance variables.

The Influence of Financial Literacy and Financial Capital on MSMEs Business Performance

From the hypothesis that financial literacy and financial capital simultaneously have a positive and significant effect on business performance, the results of calculations using the SPSS program are obtained by comparing t-count with ftablel with a significance level = 0.05. It can be seen that t-count is 88.310 by comparing the t-table = 0.05 with the degrees of freedom of the numerator (the number of $X = 2$ and the degree of the denominator $(N-K-1) = 97$), the t-table is 3.09. T-count is greater than ftablel ($88.310 > 3.09$) then Ho is rejected and Ha is accepted, meaning that there is a significant effect between the independent variables (X) together on the dependent variable (Y). This means that it can be said that simultaneously the independent variables of financial literacy and financial capital have a positive and significant effect on the dependent variable of MSMEs business performance.

5 Conclusion

Based on the results of research on the effect of Financial Literacy and Financial Capital on the Performance of Micro, Small and Medium Enterprises (MSMEs) in Central Java (In MSMEs in Grobogan Regency). Based on the results of data analysis and discussion that has been stated in chapter IV, several conclusions can be drawn, as follows:

- 1) Financial literacy has a positive and significant effect on MSMEs business performance. This means that the first hypothesis presented is proven true.
- 2) Financial capital has a positive and significant effect on MSMEs business performance. This means that the second hypothesis presented is a proven true.
- 3) Financial literacy and financial capital simultaneously have a positive and significant effect on business performance. This means that the third hypothesis presented is proven true.

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