The Effect of Financial Literacy and the Application Of Financial Records On the Performance Of MSMEs

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Abstracts. This study aims to analyze the effect of financial literacy and the application of financial records on the performance of MSMEs in Bojonegoro District, with a focus on angkringan businesses. This research uses quantitative methods with descriptive and associative approaches. Data were collected through questionnaires and analyzed using SPSS. The results showed that the application of financial records had a significant effect on the performance of MSMEs while financial literacy did not show a significant effect. Simultaneously, financial literacy and financial records have a significant effect on performance. This research confirms the importance of good financial management through structured records to improve the sustainability of MSME businesses, especially in the context of micro businesses such as angkringan.

Keywords: Financial Literacy, Implementation of financial records, performance of umkm

1. INTRODUCTION

MSMEs play an important role in the Indonesian economy, contributing 61.97% to GDP and absorbing more than 97% of the workforce (Kemenkop UKM, 2023). However, this sector still faces various challenges, especially in financial management, where more than 70% of MSMEs in Indonesia experience financial management constraints (Bank Indonesia, 2022). In the context of angkringan businesses, many business owners have not practiced good financial recording, making it difficult to evaluate business performance. The AUMI survey (2021) shows that 80% of MSMEs do not have a structured financial recording system. Low financial literacy is also a major problem, with Indonesia's financial literacy index only reaching 49.68% (OJK, 2022). This low financial literacy hampers MSMEs' ability to manage capital, cash flow and business planning. Previous research by Setiawan (2021) shows that MSMEs with high financial literacy tend to have good financial records, which contribute positively to business performance, with financial literacy contributing 45% to increasing MSME profitability.

This study aims to measure the extent to which financial literacy and financial recording affect the performance of MSMEs, particularly angkringan businesses in Bojonegoro sub-district, to provide insights that can help improve the sustainability and efficiency of their businesses.

2. LITERATURE REVIEW

Financial literacy is the ability of individuals or businesses to understand, manage and use financial information effectively in making economic decisions. It involves basic financial knowledge, budget management, and an understanding of investment risks and opportunities. In the context of Micro, Small and Medium Enterprises (MSMEs), Financial literacy is essential for their general well-being and being able to comfortably distinguish financial choices, discuss money and other financial issues (Kusuma et al.2022).

According to Sanistasya et al. (2019), MSMEs with good financial literacy havethe ability to make strategic plans, identify opportunities and threats, and cope with changes in the business environment. In addition, financial literacy also helps MSME actors access formal sources of financing more easily, which in turn improves their business performance (Anom & Safii, 2022).

Tetikriyani's (2024) there is a positive effect of financial literacyon the performance of MSMEs. With financial literacy, MSME owners can carry out better financial planning, including recognizing available financial resources, assessing risks and opportunities, and making investment decisions. However, in previous research by Gita Mai et all (2024) the financial literacy factor did not affect the performance of MSMEs, in other words, good knowledge did not affect the performanceof MSMEs.

Financial recording is a systematic process for recording, classifying, andreporting financial transactions based on applicable accounting principles. Good recording is the basis for making simple financial reports to monitor business conditions, such as income, expenses, and asset management based on SAK EMKM (Rumbianingrum & Wijayangka, 2018). According to Matiin (2021) there are several benefits from the implementation offinancial records which include. Research by Samuel et all (2023) shows that MSMEs thatimplement good financial records tend to have more optimal performance because theycan avoid chaotic financial management.

MSME performance reflects the extent to which the business is able to achieve the objectives set, both in terms of financial and non-financial aspects. According to Mauli et al. (2019), MSME performance can be measured through indicators such asturnover growth, increase in the number of customers, and durability in the market. Internal factors such as financial literacy and managerial skills, as well as external factors such as economic conditions and technological support, have a major influenceon the success of MSMEs (Safii & Anom, 2021).

Previous research shows that financial literacy and financial recording are important elements in driving improved MSME performance. Septiani & Wuryani (2020) identified that financial literacy directly contributes to the ability of MSMEs to manage cash flow and plan business development. In addition, the use of technology infinancial recording is also proven to improve operational efficiency and accessibility offinancial data.

Financial literacy and financial record keeping complement each other in supporting MSME performance. Setyobudi (2020) notes that financial literacy providesa knowledge base for businesses to understand the importance of record keeping, whilefinancial record keeping provides valid data to support strategic decision making. The combination of the two results in more structured financial management, which in turnhas a positive impact on overall business performance.

Research by Dewi et al. (2020) and Lestari et al. (2020) support the finding thatfinancial literacy and financial recording simultaneously have a significant effect on thesustainability of MSMEs. This shows the importance of integration between financial knowledge and record-keeping practices in creating competitive business performancein the market. Based on the theoretical review, the research hypothesis states that financial literacy and the application of financial records have a positive and significant effect on the performance of MSMEs in Bojonegoro District. The three main hypotheses proposed are: (H1) financial literacy has a positive effect on the performance of MSMEs, (H2) the application of financial records has a positive effect on the performance of MSMEs, and (H3) both simultaneously have a positive effect on the performance of MSMEs.

3. METHODS

This research uses quantitative methods with descriptive and associative approaches. Sugiyono (2019) states that quantitative methods are used to examine certain populations or samples, with data in the form of numbers analyzed using statistics. The descriptive approachis used to describe the phenomenon of financial literacy and financial recording practices among angkringan business actors in Bojonegoro District. Meanwhile, the associative approach aims to test the causal relationship between the research variables. This is in line with Creswell's (2020) statement that the associative approach is suitable for testing the influence between variables.

In the study, the population used for research was all angkringan business actors in Bojonegoro District, the sampling technique used purposive sampling, namely the selection of samples based on the consideration of researchers by meeting certain criteria. By followingthe

sample selection steps with the inclusion criteria and getting 30 samples. the variables ofthis study are financial literacy (X1), Application of Financial Records (X2) as the dependent variable and MSME Performance (Y) as the Independent Variable. The instrument used in this study was a questionnaire using a 1-5 Likert scale statement (strongly disagree, disagree,neutral, agree, and strongly agree). to measure respondents' responses. The validity and reliability of the questionnaire were tested before use to ensure the instrument could measureaccurately and consistently.

4. RESULTS

This study aims to analyze the relationship between financial literacy, financial record implementation, and MSME performance in the context of micro, small, and medium enterprises (MSMEs). The data obtained were analyzed using SPSS software to evaluate the consistency, relationship between variables, as well as the effect of each variable on business performance, andobtained the following results.

In this research, the respondents consisted of angkringan business actors operating in Bojonegoro District. The selection of respondents was based on certain criteria, namely business actors who actively carry out operational activities and have financial records. The respondents for this research were dominated by independent business actors with moderate to quite long business experience. The educational background of the majority of SMA/SMK and simple financial recording habits indicate the need to increase financial literacy and implement a more effective financial recording system to support the performance of angkringan MSMEs in Bojonegoro.

Validity and Reliability Test

The purpose of validity and reliability tests in research is to ensure that the instruments used accurately measure what they are intended to measure (validity) and produce consistent results when used repeatedly (reliability). Validity testing ensures that the constructs or variables being studied are truly reflected by the indicators used, while reliability testing assesses the extent to which the instrument provides stable and dependable results. Both tests are essential for enhancing the quality and credibility of research data, thus supporting valid and trustworthy conclusions (Sekaran & Bougie, 2016).

Table 1. Validity Test Results

Variable	Indicator	R Count	R table	Sig.	Desc.
Financial Literacy	LK1	0.901	0.361	0.000	Valid
	LK2	0.944	0.361	0.000	Valid
	LK3	0.848	0.361	0.000	Valid
	LK4	0.865	0.361	0.000	Valid
	LK5	0.886	0.361	0.000	Valid
Implementation of Financial Recordkeeping	PPK1	0.937	0.361	0.000	Valid
	PPK2	0.948	0.361	0.000	Valid
	PPK3	0.594	0.361	0.001	Valid
	PPK4	0.864	0.361	0.000	Valid
	PPK5	0.891	0.361	0.000	Valid
MSME Performance	KU1	0.908	0.361	0.000	Valid
	KU2	0.821	0.361	0.000	Valid
	KU3	0.904	0.361	0.000	Valid
	KU4	0.835	0.361	0.000	Valid
	KU5	0.858	0.361	0.000	Valid

Source: Data processed (2024)

All items had a significant positive relationship with the total score (TOTALLK), with the highest correlation between LK2 and TOTALLK ($r = 0.944$, $p < 0.01$). This indicates that the individual LKitems correlate well with each other. All items also had a significant positive relationship with the total score (TOTALPPK), with the highest correlation between PPK2 and TOTALPPK ($r = 0.948$, $p < 0.01$). This correlation indicates consistency between items in measuring the same variable.

All items showed significant correlations with the total score (TOTALKU), with the highest correlation between KU1 and TOTALKU ($r = 0.908$, $p < 0.01$). This indicates that the KU measure has good reliability.

Table 2. Reliability Test Results

Variable	Cronbach Alpha	Desc
Financial Literacy	0.932	Valid
Implementation of Financial Record	0.904	Valid
MSME Performance	0.916	Valid

Source: Data processed (2024)

These values indicate excellent reliability (Alpha > 0.9) for all variables.

This shows that the instrument used has a very high level of reliability. This instrument is able

to measure personal and professional competence consistently, so that the results of the respondent's assessment can be trusted. This consistency can be seen from the ability of the instrument to provide uniform results, even though repeated measurements are carried out or various items are involved in the assessment. Not only that, the reliability of the instruments used to measure MSME performance has also been proven to be very high. This reflects that each item in the instrument is able to work consistently to describe the overall performance of MSMEs. Thus, this instrument provides a guarantee that the data produced can be used as a valid and reliable basis for decision making or further development

Hypotheses Testing

This t-test is used to prove whether the independent variable individually affects the dependent variable. Decision-making criteria for acceptance or rejection of the hypothesis:

Table 3. Hypotheses Testing Result

Variable	Coefficient	sig	Desc
Financial Literacy	0.249	0.198	Not significant
Implementation of Financial Recordkeeping	0.605	0.003	significant

Source: Data processed (2024)

a. The Effect of Financial Literacy (X1) on MSME Performance (Y)

The significance value of the Financial Literacy (X1) variable is 0.198 <0.05 with a coefficient value of 0.249. So it can be explained that the Financial Literacy (X1) variable does not have a significant effect on the MSME performance (Y) variable. Thus, the level of financial literacy of MSME actors does not directly affect their business performance.

b. The Effect of Financial Record Implementation (X1) on MSME Performance (Y)

The significance value of the Application of Financial Records (X1) variable is 0.003 <0.05 with a coefficient value of 0.605. So it can be explained that the Financial Record Implementation variable (X1) has a significant positive effect on the MSME Performance variable (Y). With the implementation of good financial records, MSMEs can ensure that their business runs stably and sustainably.

Discussion

The effect of Financial Literacy on MSME Performancefrom the results of the analysis shows that the Financial Literacy variable (X1) does not have a significant effect on MSME performance (Y). This means that the level of financial literacy of MSME actors in this study does not directly affect their performance statistically. This indicates that although the business actors' understanding of basic financial concepts, such as cash management, financial planning, and risk management, is in place, their application in daily operations has notbeen maximized. This low influence can also be caused by the limited time or resourcesowned by MSME actors to explore and apply financial literacy in their business activities. This finding is consistent with the research of Gita Mai et al. (2024), which states that high financial knowledge does not always have a direct impact on improvingbusiness performance.

In contrast, the application of financial records (X2) has a positive and significant influence on MSME performance. This finding shows that MSMEs that conduct structured financial records, such as recording income, expenses, and business assets, are able to manage their resources more effectively. Good records facilitate the process of evaluating business performance, identifying opportunities for improvement, and making strategic decisions. Moreover, clear and transparent asset management schemes play a critical role in enhancing the financial performance of MSMEs. By keeping detailed financial records, MSMEs can ensure better tracking of their assets, improve cash flow management, and reduce financial risks. This transparency not only helps in daily operations but also builds trust with investors, creditors, and other stakeholders. This research supports the views of Matiin (2021); Samuel, et al (2023), which state that consistent financial recording is an important foundation in successful financial management. Furthermore, it emphasizes how proper financial record-keeping and asset management contribute to a more organized and resilient business operation (Safii et al., 2024), enabling MSMEs to compete and grow in a dynamic market environment (Safii & Rahayu, 2021).

Research Implications

This research underscores the importance of continuous training to improve the financial literacy and record-keeping capacity of MSMEs. With a comprehensive training program, MSMEs can better understand how to apply their financial knowledge in their daily operations. In addition, the development of user-friendly record-keeping systems, such as digital-based applications, can be a practical solution to help small businesses record financial activities efficiently.

5. CONCLUSIONS

The results of the analysis indicate a significant and strong relationship between financial literacy, the application of financial records, and MSME performance. The instruments used proved to be consistent and reliable, reflecting high measurement quality. In the regression analysis, the application of financial recording has a significant influence on MSME performance, while financial literacy does not show a significant influence. Overall, the regression model shows that the independent variables jointly affect MSME performance.

These results emphasize the importance of continuous training to improve the financial literacy and record-keeping capabilities of MSMEs. With targeted training programs, MSME players can better understand how to integrate financial knowledge into daily operations. In addition, the development of user-friendly recording systems, such as digital technology-based applications, is a practical solution to help MSMEs record financial activities more effectively and efficiently.

LIMITATIONS

The first is finding the right respondents for this research, especially among MSMEs, which can be a challenge because researchers do not have a wide network or access to reach angkringan business actors directly, so it takes more time to get valid data. Time limitations in research are also a challenge. Writing a good research report takes time to plan, write andedit. With tight deadlines, there may be tradeoffs in the research results, both in the structureof the report writing and in the depth of analysis presented.

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