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## Analysis of The Influence of Literacy, Inclusion and Financial Management on The Performance And Sustainability of Msmes In Binjai City

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**Abstract:** This study analyzes the impact of literacy inclusion and financial management on the performance and sustainability of Micro, Small, and Medium Enterprises (MSMEs) in Binjai City, North Sumatra. Utilizing a quantitative research method, the study collected primary data through questionnaires and interviews with 105 MSME owners. The findings indicate that higher financial literacy and inclusion significantly enhance the ability of MSME owners to manage business finances, thereby improving both performance and sustainability. The study highlights the critical role of financial management in the growth and stability of MSMEs, particularly in distinguishing between personal and business finances. Moreover, it confirms that well-managed finances positively influence sales turnover and decision-making processes within MSMEs. The research contributes to understanding the factors that drive MSME success in a regional context, offering practical implications for policy and training programs aimed at improving financial literacy and inclusion among MSME operators.

**Keywords:** MSMEs, Literacy, Inclusion, Financial Management, Performance, Sustainability

### INTRODUCTION

The role of economic sectors such as micro businesses in meeting people's living needs and increasing Indonesia's economic growth is beyond doubt. MSMEs are one sector that is popular with the public because MSMEs do not require large amounts of capital to start them and job opportunities are not comparable to job seekers. MSMEs are one sector that continues to contribute to Indonesia's Gross Domestic Product (GDP). This cannot be separated from the large number of MSMEs in Indonesia. Based on data, the number of MSMEs in Indonesia in 2019 reached 65.5 million MSMEs. This number has increased compared to the previous year, namely 64.2 million MSMEs. The Ministry of Cooperatives and Small and Medium Enterprises (Kemenkop UKM), the total number of MSMEs in Indonesia will reach 8.71 million business units in 2022.

MSMEs often experience delays in their development, this is due to various conventional problems that are not completely resolved, such as problems with human resource capacity, ownership, financing, marketing and various other problems related to business management. Therefore, there needs to be strategic efforts to improve the performance of MSMEs<sup>1</sup>

Financial performance is an analysis carried out to see the extent to which a company has implemented financial implementation rules properly and correctly. Financial performance is a description of the financial condition of a company which is analyzed using financial analysis tools, so that it can be known about the good and bad financial condition of a company which reflects work performance in a certain period. This is very important so that resources are used optimally in facing environmental changes<sup>2</sup>

The sustainability and performance of MSMEs is influenced by several factors such as Literacy, Inclusion and Financial Management. This is explained in Tomi Dermawan's research, namely that the higher the financial literacy and inclusion of MSME players, the greater the understanding of how to manage business finances well and ultimately the higher literacy, inclusion and financial management can help improve the performance and sustainability of micro, small and medium enterprises.<sup>3</sup>

The lack of knowledge regarding financial planning is a serious problem for Indonesian society, so it is necessary to increase financial literacy among the general public today. Especially for students as the young generation who face the complexity of today's products, services and markets. Financial literacy is the ability to manage finances<sup>4</sup> while financial literacy can also be interpreted as financial knowledge, with the aim of achieving prosperity.<sup>5</sup> This can be interpreted as meaning that preparations need to be made to welcome globalization, and more specifically, namely globalization in the financial sector. Financial inclusion and financial literacy are really needed for business actors, including MSMEs, the aim is so that MSMEs are able to determine the choice and use of financial products and services that suit their needs, have the ability to carry out better financial planning, and can avoid investment activities in unclear financial instruments<sup>6</sup>

Based on the 2022 SNLIK results from the picture above, the financial literacy index of the Indonesian people is 49.68 percent, an increase compared to 2019 which was only 38.03 percent. Meanwhile the inclusion index This year's finances reached 85.10 percent, an increase compared to the previous SNLIK period in 2019, namely 76.19 percent. This shows that the gap between the literacy level and the inclusion level is decreasing, from 38.16 percent in 2019 to 35.42 percent in 2022<sup>7</sup>. North Sumatra Province is one of the provinces that has good literacy and literacy categories. In 2022, North Sumatra Province will have literacy of 51.69% while inclusion will be 95.58%. One of the cities in North Sumatra that has good literacy and inclusion is the city of Binjai.

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<sup>1</sup>Muniroh, Wulan. Suryandani. Financial Literacy Review on SME Batik Tulis Lasem Proceedings of the UNIMUS National Seminar, 295 – 301, 2019

<sup>2</sup>Irham Fahmi. Introduction to Financial Management, First Edition, Alfabeta, Bandung. 2012

<sup>3</sup>Tomi Dermawan, The Influence of Literacy, Inclusion and Financial Management on the Performance and Sustainability of MSMEs (Study of Micro Business Actors, Brawijaya University Students), Scientific Journal, 2019

<sup>4</sup>Chen and Volpe. An analysis of personal financial literacy among college students. Financial Services Review, 7(2), 107–128. Th 1998 [https://doi.org/10.1016/s1057-0810\(99\)80006-7](https://doi.org/10.1016/s1057-0810(99)80006-7)

<sup>5</sup>Lusardi, A and Mitchell, O. (2007). Financial Literacy and Retirement Planning: New Evidence from the Rand American Life Panel, MRRC Working Paper 157.

<sup>6</sup>Djuwita, D. (2018). Sharia Financial Literacy Level Among MSMEs and Its Impact on Business Development. 10(1), 105–127

<sup>7</sup> [Infographic of 2022 National Survey of Financial Literacy and Inclusion \(ojk.go.id\)](https://infographic.ojk.go.id) accessed March 3, 2023

In running this MSME, business actors must be able to manage their finances for the sustainability of their business so that they do not experience losses in running their business. Some MSMEs have good financial management, but there are still many who are not good at managing their business finances. Financial management in micro and small businesses is still not good. Personal money is often still mixed with company money, and this is also the case with how this money is used. In medium-sized businesses, financial management is done quite well. Company finances are managed separately from the company owner's finances.<sup>8</sup>

Based on the statement above, financial management in medium-sized businesses is quite good, while in micro and small businesses, it is still not good because there are still mixed assets. This actually needs to be corrected due to the importance of financial management. If a business does not have good financial management, it will make it difficult for business owners to make decisions because of poor financial conditions and will have an impact on sales turnover which may decrease as a result of this.

Research conducted by Nur Indriyata (2020) also states that financial inclusion variables and financial literacy have a positive influence on the performance of Batik MSMEs in Tegal District. Research conducted by Risa and Eni (2020) also states that financial literacy and financial inclusion are factors that influence the development of MSME performance in Sidoarjo. Based on the problem formulation above, the research objectives raised in this study are: To analyze and determine the influence of literacy on the performance of MSMEs? To analyze and determine the influence of inclusion on the performance of MSMEs? To analyze and determine the influence of financial management on the performance of MSMEs? , To analyze and determine the influence of literacy on the sustainability of MSMEs?, To analyze and determine the influence of inclusion on the sustainability of MSMEs?, To analyze and determine the influence of financial management on the sustainability of MSMEs?.

## METHOD

The type of research used in this research is quantitative research. This research is classified as quantitative research because it deals with numbers and there is a process of data analysis statistics (Sugiyono, 2020.). Quantitative research is a reference in carrying out research which is theoretically closely related to the philosophy of positivism as a basis for scientific thinking and the application of statistical analysis in the context of testing hypotheses built based on research problems. This research was conducted on MSMEs throughout Binjai City. The research time was carried out from mid-April to the end of May 2023. The description of the research time is as follows. Source of research data, namely primary data. Primary data is data obtained from the first party. Primary data in this research is the results of observational interviews and documentation. Secondary data is data that is already available and collected by other parties. The author just needs to use the data according to his needs. Anwar Sanusi, *Business Research Methodology*, (Jakarta: Salemba Empat, 2012), p.104. These documents can be documents and other literature related and related to the problem being researched, such as book articles, magazines, the internet, papers and results of previous scientific work, etc. The population in this research is all MSMEs in Binjai City in 2023. According to Hair et al., (2019) The ideal respondent size depends on the number of all indicators in the variable multiplied by a minimum of 5 to a maximum of 10. In this study, there were 21 statement indicator items. This research uses a maximum of 5 x 21 statement indicators, so the sample calculation studied is  $5 \times 21 = 105$  samples. Data Collection Techniques, Questionnaires, Interviews, Data analysis techniques used in this

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<sup>8</sup>JUD (Jubilee Enterprise), *First Steps to Becoming an MSME Entrepreneur*, Yogyakarta: Jubilee Enterprise, 2016, p. 8

research are: Descriptive Statistics, Structural Equation Modeling (SEM) Analysis based on Variance (Partial Least Square).

## RESULTS AND DISCUSSION

InPLS (Partial Least Square) method, the analysis technique used is as follows:

### 1. Outer model analysis

Outer model analysis is carried out to ensure that the measurements used are valid and reliable as measurements. This analysis specifies the relationship between indicator variables and latent variables.

#### a. Convergent Validity

*Convergent Validity* is an indicator that is assessed based on the relationship between the score item and the score construct which can be seen from the standardized factor loading which describes the magnitude of the relationship between each item and its construct. According to Wiyono (2011:403) states that validity can be determined by convergent validity (outer model) with a loading factor value of 0.50 to 0.60 which is considered sufficient to explain that indicators have met the requirements for convergent validity. In this study, the convergent validity value (outer model) with the loading factor value used was > 0.70.

**Table 1. Convergent Value Value**

Variable	Indicator	Loading Factor	Information
Literacy (X1)	X1.1	0.695	Invalid
	X1.2	0.831	Valid
	X1.3	0.822	Valid
	X1.4	0.799	Valid
	X1.5	0.722	Valid
	X1.6	0.783	Valid
	X1.7	0.598	Invalid
	X1.8	0.773	Valid
Inclusion (X2)	X2.1	0.690	Invalid
	X2.2	0.775	Valid
	X2.3	0.788	Valid
	X2.4	0.716	Valid
	X2.5	0.725	Valid
	X2.6	0.872	Valid
	X2.7	0.830	Valid
	X2.8	0.577	Invalid
Financial Management (X3)	X3.1	0.818	Valid
	X3.2	0.767	Valid
	X3.3	0.687	Invalid
	X3.4	0.804	Valid
	X3.5	0.839	Valid
	X3.6	0.734	Valid
	X3.7	0.729	Valid
	X3.8	0.777	Valid
	X3.9	0.631	Invalid
	X3.10	0.815	Valid
MSME Performance (Y1)	Y1.1	0.774	Valid
	Y1.2	0.866	Valid
	Y1.3	0.827	Valid
	Y1.4	0.809	Valid
	Y1.5	0.707	Valid
	Y1.5	0.824	Valid
	Y1.7	0.804	Valid
	Y1.8	0.767	Valid

Sustainability of MSMEs (Y2)	Y2.1	0.855	Valid
	Y2.2	0.719	Valid
	Y2.3	0.494	Invalid
	Y2.4	0.812	Valid
	Y2.5	0.844	Valid
	Y2.6	0.869	Valid
	Y2.7	0.752	Valid
	Y2.8	0.828	Valid

Based on the Outlier Loading analysis of 42 questions, 35 of the questions used were valid because the loading factor value was  $> 0.70$ . Conclusion: 35 questions used by researchers can be understood by respondents and 7 questions should be discarded.

### b. Discriminant Validity

Discriminant Validity is a measurement model that describes indicators that are assessed based on cross-loading measurements with constructs. If the relationship between the construct and the measurement item is greater than the size of the other construct, it shows that the block size is better than the other blocks. Used to prove that the questions on each latent variable are not confused by respondents who answer the questionnaire based on questions on other latent variables, especially in terms of the meanings of the questions. Another method for assessing discriminant validity is by comparing the square root of the average variance extracted ( $\sqrt{AVE}$ ) for each construct with the correlation between the construct and other constructs with the model. In Ghazali & Latan (2015) explained another test to assess the validity of the construct by looking at the AVE value. The model is said to be good if the AVE of each construct is greater than 0.50.

**Table 2. Discriminant Validity Values**

Variable	AVERAGE Variance Extracted(AVE)	Reliable
Literacy (X1)	0.643	Reliable
Inclusion (X2)	0.633	Reliable
Financial Management (X3)	0.637	Reliable
MSME Financial Performance (Y1)	0.638	Reliable
Sustainability of MSMEs (Y2)	0.674	Reliable

Based on the analysis of the discriminant validity value, the Average Variance Extrated (AVE) value for each variable was  $> 0.50$ , so the conclusion of the respondents' answers as a whole was not confused by the answers of respondents who answered carelessly.

### c. ReliabilityCronbach Alpha.

According to Ghazali (2018:45) true reliability isa tool for measuring a questionnaire which is an indicator of a variable or construct.According to Dahlan et.al (2014), the alpha scale is reliable if the Cronbach Alpha value is  $> 0.6$ .

**Table 3. Cronbach Alpha Reliability**

Variable	Cronbach's Alpha	Reliable
Literacy (X1)	0.888	Reliable
Inclusion (X2)	0.883	Reliable
Financial Management (X3)	0.918	Reliable
MSME Financial Performance (Y1)	0.918	Reliable
Sustainability of MSMEs (Y2)	0.919	Reliable

Based on the results of the entire Cronbach Alpha Reliability analysis question reliable because the Cronbach Alpha value is  $> 0.60$ .

#### d. Composite reliability

Composite reliability is an indicator to measure a construct that can be seen in the latent coefficient view. Measurement using Cronbach's alpha is achieved if the value is  $> 0.7$  and it is said that the construct has high reliability.

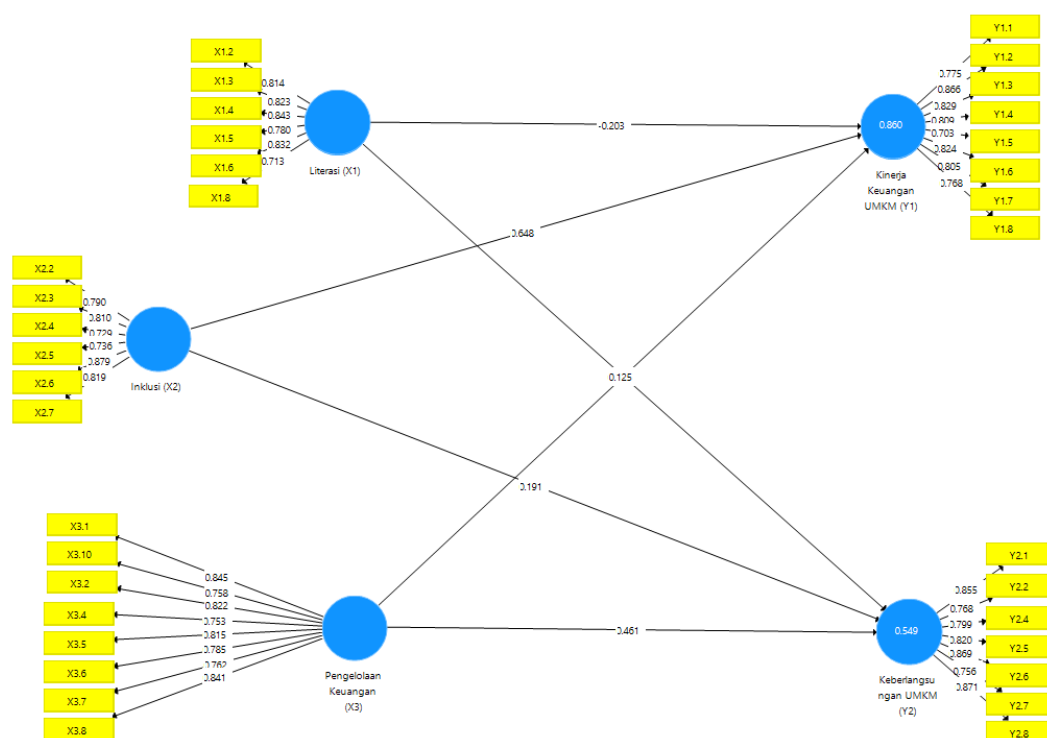
**Table 4. Composite reliability table**

Variable	Composite Reliability	Reliable
Literacy (X1)	0.915	Reliable
Inclusion (X2)	0.911	Reliable
Financial Management (X3)	0.933	Reliable
MSME Financial Performance (Y1)	0.934	Reliable
Sustainability of MSMEs (Y2)	0.935	Reliable

Based on the results of the Composite reliability analysis, all questions are reliable because the Composite reliability value is  $> 0.70$ .

## 2. Inner Model Analysis

Inner Model analysis describes the correlation between latent variables based on substantive theory. Inner model analysis uses R-square for the dependent construct. In the inner model analysis with PLS (Partial Least Square) it starts by looking at the R-square on the dependent latent variable. Then you can measure the R-square value by looking at the predictive Q-square value of relevance. A Q-square value greater than 0 indicates that the inner model has relevant predictive value. Meanwhile, if the Q-square value is less than 0 then the inner model has less relevant predictions.



**Figure 1. Inner Model Image**



The results of the inner model analysis in figure 4.1 obtained information on 35 statements which will be used for analysis of the inner model, namely 6 questions for the literacy variable (X1), 6 statements for the inclusion variable (X2), 8 statements for the financial management variable (X3), 8 statements for the MSME financial performance variable (Y1) and 7 statements for the MSME sustainability variable (Y2). The analysis that will be used next is the R-Square Test, Q-Square test and path coefficient.

#### a. *R-Square Test*

In assessing the structural model, first assess the R-Square for each endogenous latent variable as the predictive power of the structural model. Testing of the structural model is carried out by looking at the R-square value which is a model goodness-fit test. Changes in the R-Square value can be used to explain the influence of certain exogenous latent variables on whether endogenous latent variables have a substantive influence. R-Square values of 0.75, 0.50 and 0.25 can be concluded that the model is strong, moderate and weak (Ghozali & Latan, 2015).

**Table 5. R-Square Test Results Table**

Variable	<i>R-Square</i>
MSME Financial Performance (Y1)	0.543
Sustainability of MSMEs (Y2)	0.860

##### 1) MSME Performance (Y1)

Based on the analysis of the table above, the correlation coefficient value is obtained  $r = 0.543$  concluded value approaches +1, then the correlation between the inclusion variables (X1), literacy (X3), and financial management (X3) on the MSME performance variable (Y1) are moderate and in the same direction, said to be positive.

##### 2) Sustainability of MSMEs (Y2)

Based on the analysis of the table above, the correlation coefficient value is obtained  $r = 0.660$  concluded value away +1, then the correlation between the inclusion variables (X1), literacy (X3), and financial management (X3) on the MSME sustainability variable (Y2) are moderate and in the same direction, said to be positive.

#### b. *Q-Square Test*

The Q-square test in PLS is used for predictive relevance in constructive models. In the goodness of fit assessment, it can be seen through the Q2 value. The Q2 value has the same meaning as the coefficient of determination (R-Square) in regression analysis, where the higher the R-Square, the better the model can be said to fit the data. Q-square measures how well the observed values are produced by the model and also its parameter estimates.

**Table 6. R-Square Adjust Test Results Table**

Variable	<i>R-Square Adjust</i>
MSME Financial Performance (Y1)	0.536
Sustainability of MSMEs (Y2)	0.856

##### 1) MSME Financial Performance (Y1)

Based on the R-Square Adjust output of 0.536, so you can conclude inclusion variables (X1), literacy (X3), and financial management (X3) on MSME performance variables (Y1) is 53.6% while 46.4% is explained by other factors such as promotions, discounts, service quality, and others.

##### 2) Sustainability of MSMEs (Y2)

Based on the R-Square Adjust output of 0.856, so you can conclude inclusion variables (X1), literacy (X3), and financial management (X3) on the MSME sustainability variable (Y2) is 85.6% while 14.4% is explained by other factors such as promotions, discounts, service quality, and others.

### c. Coefficient Track

The path coefficient shows how big the relationship or influence of the latent construct is carried out using the bootstrapping procedure. Hypothesis testing is related to testing the relationship between variables. Hypothesis testing is carried out by looking at partial test results for each variable. The results of the analysis are as follows

**Table 7. Test Results Table Path Coefficient**

Hypothesis Testing	Original Sample (O)	T Statistics ( O/STDEV )	P Values	Ket
Literacy (X1) -> MSME Financial Performance (Y1)	0.203	2,380	0.018	Hypothesis Accepted
Inclusion (X2) -> MSME Financial Performance (Y1)	0.648	8,162	0,000	Hypothesis Accepted
Financial Management (X3) -> MSME Financial Performance (Y1)	0.480	5,222	0,000	Hypothesis Accepted
Literacy (X1) -> MSME Sustainability (Y2)	0.125	1,027	0.305	Hypothesis Rejected
Inclusion (X2) -> MSME Sustainability (Y2)	0.191	1,469	0.143	Hypothesis Rejected
Financial Management (X3) -> MSME Sustainability (Y2)	0.461	3,357	0.001	Hypothesis Accepted

### Literacy (X1) -> MSME Financial Performance (Y1)

Based on the analysis results obtained P Values (0.018) < 0.05 and t statistics (2.380) > 1.96, it is concluded literacy (X1) has a significant effect on the financial performance of MSMEs (Y1). Based on the results of the analysis, the Original Sample (O) value was positive at 0.203, so it was concluded literacy (X1) has a significant and positive effect on the financial performance of MSMEs (Y1). This means increasing value literacy (X1) MSMEs of Binjai City so financial performance of MSMEs (Y1) Binjai City also increased significantly.

### Inclusion (X2) -> MSME Financial Performance (Y1)

Based on the analysis results obtained P Values (0.000) < 0.05 and t statistics (8.162) > 1.96, it is concluded inclusion (X2) has a significant effect on the financial performance of MSMEs (Y1). Based on the results of the analysis, the Original Sample (O) value was positive at 0.648, so it was concluded inclusion (X2) has a significant and positive effect on the financial performance of MSMEs (Y1). This means increasing value inclusion (X2) Binjai City MSMEs so financial performance of MSMEs (Y1) Binjai City also increased significantly.

### Financial Management (X3) -> MSME Financial Performance (Y1)

Based on the analysis results obtained P Values (0.000) < 0.05 and t statistics (5.222) > 1.96, it is concluded MSME management (X3) has a significant effect on MSME financial performance (Y1). Based on the results of the analysis, the Original Sample (O) value was positive at 0.480, so it was concluded MSME management (X3) has a significant and positive effect on MSME financial performance (Y1). This means increasing value management of MSMEs (X3) Binjai City so financial performance of MSMEs (Y1) Binjai City also increased significantly.



**Literacy (X1) -> MSME Sustainability (Y2)**

Based on the analysis results obtained P Values (0.305) > 0.05 and t statistics (1.027) < 1.96, it is concluded literacy (X1) has no significant effect on the sustainability of MSMEs (Y2). Based on the results of the analysis, the Original Sample (O) value was positive at 0.125, so it was concluded that it was literacy(X1) has an insignificant and positive effect on the sustainability of MSMEs (Y2). This means increasing literacy values(X1) Binjai City MSMEs sustainability of MSMEs (Y2) Binjai City also increased insignificantly.

**Inclusion (X2) -> MSME Sustainability (Y2)**

Based on the analysis results obtained P Values (0.145) > 0.05 and t statistics (1.469) < 1.96, it is concluded inclusion (X2) has no significant effect on the sustainability of MSMEs (Y2). Based on the analysis results, the Original Sample (O) value was positive at 0.191, so it was concluded inclusion (X2) has an insignificant and positive effect on the sustainability of MSMEs (Y2). This means increasing value inclusion (X2) Binjai City MSMEs sustainability of MSMEs (Y2) Binjai City also increased insignificantly.

**Financial Management (X3) -> MSME Sustainability (Y2)**

Based on the analysis results obtained P Values (0.001) < 0.05 and t statistics (3.357) > 1.96, it is concluded financial management (X3) has a significant effect on the sustainability of MSMEs (Y2). Based on the results of the analysis, the Original Sample (O) value was positive at 0.461, so it was concluded financial management (X3) has a significant and positive effect on the sustainability of MSMEs (Y2). This means increasing value financial management (X3) of Binjai City MSMEs sustainability of MSMEs (Y2) Binjai City also increased insignificantly.

**CONCLUSION**

Based on the results of the research and analysis, it can be concluded that literacy has a significant and positive effect on the financial performance of MSMEs. This means that the more the literacy value of Binjai City MSMEs increases, the financial performance of Binjai City MSMEs will also increase significantly. Inclusion has a significant and positive effect on the financial performance of MSMEs. This means that the more the inclusion value of Binjai City MSMEs increases, the financial performance of Binjai City MSMEs will also increase significantly. MSME management has a significant and positive effect on MSME financial performance. This means that the more the management value of Binjai City MSMEs increases, the financial performance of Binjai City MSMEs will also increase significantly. Literacy has an insignificant and positive effect on the sustainability of MSMEs. This means that the more the literacy value of Binjai City MSMEs increases, the sustainability of Binjai City MSMEs will also increase insignificantly. Inclusion has an insignificant and positive effect on the sustainability of MSMEs. This means that the more the inclusion value of Binjai City MSMEs increases, the sustainability of Binjai City MSMEs will also increase insignificantly. Financial management has a significant and positive effect on the sustainability of MSMEs. This means that the more the financial management value of Binjai City MSMEs increases, the sustainability of Binjai City MSMEs will also increase insignificantly.

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