



MICRO, SMALL, AND MEDIUM ENTERPRISES PERFORMANCE: FINANCIAL MANAGEMENT AS MODERATION

Ika Wulandari

University of Mercu Buana Yogyakarta

E-mail : ikawulandari@mercubuana-yogya.ac.id *

*correspondence author

ABSTRACT

This research seeks to assess the effect of financial literacy and inclusion on MSME performance, with financial management as a moderating variable. The study population covers all MSMEs in the Sleman Regency. The number of samples was 100 people. This research employed primary data and questionnaires for data collection the Smart PLS software was employed to perform the data analysis in this investigation. The study findings demonstrate that Financial Literacy influences the Financial Performance of MSMEs in Sleman Regency. Financial Inclusion Affects the Financial Performance of MSME Actors in Sleman Regency. Financial management does not impact the financial performance of MSME participants in the Sleman Regency. Financial management does not improve financial literacy on financial performance. Financial management does not reinforce financial inclusion in the financial performance of MSME actors in the Sleman Regency. This study's findings underscore the need to improve financial literacy via training or mentorship initiatives to raise awareness of the risks associated with inadequate financial literacy, such as poor debt management or misinvestment.

ARTICLE INFO

Submitted:

31 – January – 2025

Revised:

21 – February – 2025

Accepted:

17 – March – 2025



Keywords: Literacy, Inclusion, Finance.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) in Indonesia are commercial enterprises owned and managed by individuals or small collectives, characterized by defined levels of capital and revenue. MSMEs play a vital role in developing countries' economies because of their innate capacity to convert novel concepts into innovations and build profitable businesses (Khurana et al., 2021). Many Micro, Small, and Medium Enterprises (MSMEs) significantly influence the Indonesian economy. MSMEs are fundamental to a nation's economic development, contributing to Gross Domestic Product (GDP) and generating numerous employment opportunities. However, most MSMEs do not understand financial service concepts and products. This results in many MSMEs having difficulty managing their businesses effectively. SMEs cognizant of the significance of financial literacy are more inclined to achieve success (Khaeru et al.,

2023). According to the Ministry of Cooperatives and MSMEs of the Republic of Indonesia, data from 2019 shows 65.4 million MSMEs in Indonesia. Around 119.50 million employees, or 96.90% of the total, were employed by MSMEs in Indonesia. The large amount of data shows that MSMEs significantly affect this nation. Therefore, the government in Indonesia must emphasize the growth of MSMEs.

The problems that occur in MSMEs are complex, one of which is the difficulty in implementing the concept of financial management. The cause is that MSMEs do not understand the basic concepts of financial management, such as budget planning, financial recording, and cash flow management. The lack of financial literacy causes MSMEs to assume that making financial reports is unimportant, especially for small or newly established businesses. This view causes them not to have an effective evaluation tool to assess business performance financially. There is still a tendency for MSMEs to combine personal and company funds. The company's financial success can be hard to gauge because of this. Limited capital also makes it difficult for them to carry out long-term financial planning and deal with emergencies or market fluctuations.

The overall financial literacy index of MSME participants increased from 38.03% in 2019 to 49.68% in 2022, as indicated by data from the Financial Services Authority or OJK (2022). Additionally, It is essential to acknowledge that the financial inclusion index showed a significant increase, going from 76.19% in 2019 to 85.10% in 2022. This is something that should be taken into consideration. This finding indicates a decrease in the disparity between financial literacy and financial inclusion, as seen from the decrease in percentage from 38.16% in 2019 to 35.42% in 2022. Despite the growth, OJK observed that most Indonesians still lack a sufficient comprehension of formal financial services and products. The Financial Services Authority's 2024 National Survey of Financial Literacy and Inclusion found that 65.43% of Indonesians were financially literate, and 75.02% were financially included. This growth is a direct result of the government's, banks, and other industry participants' concerted efforts to educate the public about financial services and products. Financial literacy is essential for empowering society, safeguarding consumers, enhancing financial inclusion, and improving comprehension of financial management. Financial literacy is the proper management of funds according to the needs to grow the economy and increase individual or community understanding of Financial Management (Septiani & Wuryani, 2020). In this sense, financial literacy is tightly linked to financial management. This comprehension elucidates that with sufficient financial literacy, business participants may identify and react to shifts in the economic, financial, and commercial landscape innovatively and suitably. Consequently, every policy they design will feature realistic and focused solutions to improve the efficiency and longevity of their business activities.

Financial inclusion is an integral part of the financial literacy program, especially in efforts to improve the advantages of small business actors in utilizing financial services and getting direct benefits from financial institutions. The success of financial inclusion can be measured by the extent to which all levels of society have easy access to formal financial services (Desiyanti & Kassim, 2020). The economic gap in society will be reduced with financial inclusion. Financial management is another component that contributes to improving the performance of micro, small, and medium-sized enterprises (MSMEs).

Chepngetich (2016) explored the impact of financial literacy on the performance of MSMEs in Kenya. The findings indicated that strong financial literacy favorably influences the success of MSMEs, particularly regarding efficient financial administration and access to finance sources. Ibor et al. (2017) investigated the correlation

between financial inclusion and the performance of MSMEs in Nigeria. Enhanced access to formal financial services improves MSME performance, facilitating more efficient financial management and business expansion. Kizza (2019) examined the relationship between financial literacy and MSME performance in Uganda. The research indicated that comprehension of financial concepts aids MSME proprietors in making superior financial judgments, enhancing their firm performance. Biswas & Ahamed (2023) examined the impact of financial inclusion on the effectiveness of monetary policy in developing countries. Their findings indicated enhanced financial inclusion can stabilize price levels by reducing economic inflation. These findings indicate that financial inclusion can positively impact economic stability. This can subsequently influence MSME performance.

A variety of theories supports the phenomenon of financial management for MSMEs. According to Barney's Resource-Based View (RBV) theory, the competitive advantage of a business is contingent upon its resources, which include financial resources (Barney, 1991). Within MSMEs, restricted monetary resources are often the main obstacle in business management. Financial management can help MSMEs allocate resources efficiently and increase their competitiveness. Financial Literacy Theory emphasizes the importance of individual understanding and skills in managing finances, including in a business context. How financial literacy among MSMEs causes poor financial management, such as unorganized financial records and inappropriate investment decisions. Raising awareness of financial literacy can help MSMEs make more rational and strategic decisions related to financial management. Agency Theory (Jensen & Meckling, 1976) explains the relationship between business owners and managers regarding financial decision-making. Within the framework of MSMEs, business owners often double as managers, resulting in a conflict of interest between short-term goals, such as using business funds for personal needs, and long-term goals, such as investment for business growth. Financial management systems can reduce the risk of decision-making detrimental to the business.

According to Bahiu et al. (2021), Financial Management is Management related to allocating investment funds and efforts to raise funds effectively for financing. According to Handoko (2020), management works with individuals to determine, interpret, and achieve organizational goals through planning, organizing, and preparing staff, as well as directing, leading, and controlling the work done by employees. With good management, it is anticipated that actors in the MSME sector will be able to make reasonable financial choices. Financial management is important to business progress (Farwitawati, 2018). In addition to financial management, a business's performance can be utilized to measure its success in reaching its objectives.

Performance is the outcome of efforts intricately linked to strategic objectives and consumer pleasure, influencing the economy. Performance describes the stages of doing work, what results have been obtained, and how to complete them. Financial management aims to achieve future targets, protect and increase existing wealth, manage cash flow, manage debts and receivables, and manage funds for investment (Wulandari & Utami, 2020).

The growth and development of MSME businesses require mutually supportive elements, and to enhance the financial performance of MSMEs, appropriate efforts are needed (Supriadi & Utami, 2021). An effective strategy to achieve good performance is to increase the knowledge of MSME business actors. With increased knowledge, access to financial services and proper financial management will become more manageable,

and the entire community and MSME actors will benefit. This will positively impact the development of MSMEs as a whole.

Sleman Regency is one of Yogyakarta's regencies and has the largest MSMEs. The Yogyakarta Cooperatives and SMEs Service findings indicate that Sleman Regency has 113,96 MSME actors, while Bantul has 86,99, Gunungkidul 53,96, Kulonprogo 36,14, and Yogyakarta City 32,79. The growth of MSMEs reflects Sleman's positive economic dynamics. Many MSMEs develop in Sleman due to its strong business climate. However, one major issue is inefficient financial management, hindering their growth (Nizar, 2021). MSME players often neglect financial management and fail to adopt proper accounting standard. They struggle with accounting due to inadequate financial information, making financial decision-making inefficient and reducing the trustworthiness of financial data (Tharmini & Lakshan, 2021). Many only record income and expenses, often ignoring space rental as an expense. As a result, they mistakenly perceive higher profits, leading to a misrepresentation of their financial condition (Farwitawati, 2018). Romain et al. (2021) state that financial literacy and management significantly influence MSME success. Hertadiani & Lestari (2021) find that financial inclusion impacts small business success. Dermawan (2019) concludes that financial management strongly affects MSME performance and sustainability.

Meanwhile, according to Kusumadewi (2017), financial literacy does not significantly influence the performance of MSMEs. The performance and sustainability of the MSME sector are unaffected by financial inclusion, claim Hilmawati & Kusumaningtias (2021). According to Wulansari & Anwar (2022), the performance of micro, small, and medium-sized enterprise (MSME) players is unaffected by business finance management. In Sleman Regency, 54.55% of the population had financial literacy, and 82.08% had financial inclusion, according to a poll by OJK. It shows that financial literacy and inclusion in Sleman Regency cannot reach the same percentage because some people still do not have the skills and knowledge to access financial services. It shows that people have a poor understanding of finance, which can lead to a poor understanding of how to make financial reports. Therefore, financial literacy, financial inclusion, and financial management are important in the performance of MSME actors. This research on MSMEs was conducted because, upon the basis of the findings of the observations, MSMEs in the Sleman Regency can be the main problem in this study. This research assesses the impact of Financial Literacy and Financial Inclusion on MSME performance in Sleman Regency, with Financial Management as a moderating variable.

RESEARCH METHODS

The research methodology employed is quantitative, utilizing primary information obtained through questionnaires. The participants in this study were MSME players in the Sleman Regency. The research was conducted in the Sleman Regency due to the homogeneity of respondent characteristics and the relevance of the local context. Economic and business phenomena, such as financial literacy and financial inclusion, are influenced by government policies and local conditions. Thus, the issues impacting MSMEs in the Sleman Regency may be studied more precisely and thoroughly. The study employed purposive sampling to select the sample, focusing on MSMEs that met the following criteria: (1) domiciled in Sleman, (2) registered with the Sleman Cooperative Service, and (3) actively operating their businesses. The application of the Slovin formula yielded a sample size of 100 respondents. This study employs a quantitative analysis

method utilizing Partial Least Squares (PLS). The software used to process the data is Smart PLS version 3. According to Ghazali & Latan (2015), PLS-SEM does not require a large sample size, with a minimum recommended between 30 and 100 cases. A larger sample size (>100) is generally better, but a smaller one is acceptable depending on the research context. The research data was tested for validity and reliability through an outer model evaluation, and then a structural model evaluation (inner model) was carried out to test the hypothesis. In this particular investigation, the variables that are considered to be exogenous are the variables of financial inclusion (X1) and financial literacy (X2), the variables between which are the Financial Management Variable (Z). In contrast, the endogenous variable is financial performance (Y) (digitalization knowledge). At the same time, the endogenous variable is the Y variable (MSME performance).

RESULTS AND DISCUSSION

This study's measurement model was evaluated by measuring its reflective indicators through convergent validity, construct reliability and validity, and discriminant validity. Convergent validity on reflective indicators can be seen from the loading factor value. In the first analysis using SmartPLS version 3 software, it was found that several indicators did not pass the test because their outer loading values were below 0.70, so they were excluded from the research. The indicators removed from the study were IK1, KU7, LK1, LK2, LK4, LK5, LK6 AND LK13. After these indicators were removed and the researcher re-tested, the results were obtained as in Table 1 below.

Table 1. Outer Loading

	Financial Inclusion (IK)	MSMEs Performance (KU)	Financial Literacy (LK)	Financial Management (PK)	PK x IK	PK x LK
IK2 - Banking services	0.77					
IK3 - Ease of access	0.81					
IK4 - Skills in using financial facilities	0.80					
IK5 - Skills in using the Internet	0.76					
IK6 - Service usage guide	0.73					
IK7 - Financial services	0.80					
IK8 - Maintenance costs	0.79					
IK9 - Service products	0.76					
KU1 - Sales increase		0.76				
KU2 - Monthly profit		0.79				
KU3 - Increase in the number of consumers		0.80				
KU4 - Marketing development		0.74				
KU5 - Marketing reach		0.78				
KU6 - Addition of employees		0.76				
LK3 - Knowledge of Financial Management			0.73			
LK7 - Cash book creation			0.81			
LK8 - Employee development			0.78			

Table 1. Outer Loading (continuous)

	Financial Inclusion (IK)	MSMEs Performance (KU)	Financial Literacy (LK)	Financial Management (PK)	PK x IK	PK x LK
LK9 - Budgeting			0.80			
LK10 - Monthly budget preparation			0.76			
LK11 - Financing behavior			0.77			
LK12 - Risk-taking			0.74			
LK14 - Target planning			0.75			
PK1 - Financial planning				0.87		
PK2 - Personal sources of funds				0.73		
PK3 - Additional funds from financial institutions				0.84		
PK4 - P/L planning				0.90		
PK5 - Balance sheet report				0.82		
PK6 - Recording cash inflows				0.85		
PK7 - Petty cash expenditures				0.84		
PK8 - business entity				0.87		
PK9 - Sales budget				0.91		
PK10 - Sales expense budget				0.91		
PK11 - Production budget				0.88		
PK12 – Cash Budget				0.82		
PK x IK					1.00	
PK x LK						1.00

Source: Primary Data Processed, 2024

The table demonstrates that the outer loading value exceeds 0.70, signifying a strong association. Consequently, the indicators employed in this study are valid.

Next, the researcher tested the construct's reliability and validity. This construct's reliability can be evaluated from the Cronbach's alpha value, composite reliability, and average variant extracted (AVE).

Table 2. Construct Reliability and Validity

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average variance extracted (AVE)
IK	0.91	0.92	0.92	0.61
KU	0.86	0.87	0.90	0.59
LK	0.90	0.90	0.92	0.59
PK	0.97	0.98	0.97	0.73

Source: Primary Data Processed, 2024

It can be seen from the table that the IK, KU, LK, and PK constructions exhibit favorable metrics, such as Cronbach's alpha, rho A, and composite reliability values above 0.70, while the AVE value surpasses 0.50.

The assessment of this study's discriminant validity is evidenced by the Fornell-Larcker Criterion and Cross Loading values. The value of the Fornell-Larcker Criterion is presented in table 3 below.

Table 3. Fornell-Larcker Criterion

	IK	KU	LK	PK
IK	0.78			
KU	0.57	0.77		
LK	0.32	0.51	0.77	
PK	0.26	0.23	0.10	0.86

Source: Primary Data Processed, 2024

The validity of the link between the constructs is demonstrated in table 3. This is demonstrated by the fact that the square root value of AVE (the value highlighted in bold) is greater than the correlation between constructions, precisely the values under it or the values to the left.

Researchers also look at the cross-loading value in table 4 below to assess discriminant validity. Good discriminant validity is defined as discriminant validity with a higher cross-loading value than other constructs.

Table 4. Cross Loadings

	IK	KU	LK	PK	PK x IK	PK x LK
IK2	0.77	0.42	0.15	0.17	-0.25	-0.07
IK3	0.81	0.43	0.19	0.21	-0.17	-0.07
IK4	0.80	0.40	0.21	0.19	-0.19	-0.02
IK5	0.76	0.36	0.16	0.19	-0.24	-0.04
IK6	0.73	0.33	0.24	0.24	-0.27	-0.09
IK7	0.80	0.56	0.35	0.16	-0.18	0.00
IK8	0.79	0.56	0.31	0.26	-0.11	-0.01
IK9	0.76	0.41	0.31	0.19	-0.21	-0.02
KU1	0.45	0.76	0.42	0.23	-0.20	-0.26
KU2	0.37	0.79	0.36	0.18	-0.06	-0.17
KU3	0.58	0.80	0.43	0.24	-0.24	-0.12
KU4	0.39	0.74	0.41	0.02	-0.06	-0.08
KU5	0.39	0.78	0.38	0.15	-0.17	-0.24
KU6	0.43	0.76	0.36	0.23	-0.15	-0.21
LK10	0.24	0.34	0.76	0.05	-0.02	-0.05
LK11	0.17	0.43	0.77	-0.00	-0.06	-0.10
LK12	0.33	0.46	0.74	0.10	-0.13	-0.10
LK14	0.21	0.35	0.75	0.15	-0.02	-0.21
LK3	0.29	0.37	0.73	0.08	-0.14	-0.13
LK7	0.27	0.44	0.81	0.11	0.04	-0.14
LK8	0.22	0.35	0.78	0.05	0.03	-0.08

Table 4. Cross Loadings (continuous)

	IK	KU	LK	PK	PK x IK	PK x LK
LK9	0.17	0.37	0.80	0.06	0.02	-0.09
PK1	0.30	0.23	0.08	0.87	-0.02	0.02
PK10	0.27	0.20	0.13	0.91	-0.11	-0.05
PK11	0.24	0.18	0.07	0.88	-0.07	-0.02
PK12	0.22	0.12	-0.01	0.82	0.03	-0.03
PK2	0.10	0.22	0.04	0.73	-0.08	-0.04
PK3	0.18	0.14	-0.03	0.84	-0.11	0.05
PK4	0.22	0.26	0.11	0.90	-0.11	0.04
PK5	0.20	0.10	0.06	0.82	-0.07	0.07
PK6	0.28	0.25	0.16	0.85	-0.00	0.07
PK7	0.18	0.11	0.06	0.84	-0.09	0.00
PK8	0.21	0.22	0.10	0.87	-0.03	0.00
PK9	0.22	0.17	0.09	0.91	-0.10	-0.06
PK x IK	-0.25	-0.20	-0.05	-0.07	1.00	0.49
PK x LK	-0.05	-0.23	-0.15	0.01	0.49	1.00

Source: Primary Data Processed, 2024

The table indicates that discriminant validity has been achieved. It is indicated by the cross-loading indicator on the construct (shown by the bold value), which exceeds the cross-loading value of other constructs.

It is possible to see the evaluation of the inner model by looking at the goodness of fit and the direct and indirect effect tests. Figure 1 below provides a visual representation of the outcomes of the inner model evaluation conducted for this study.

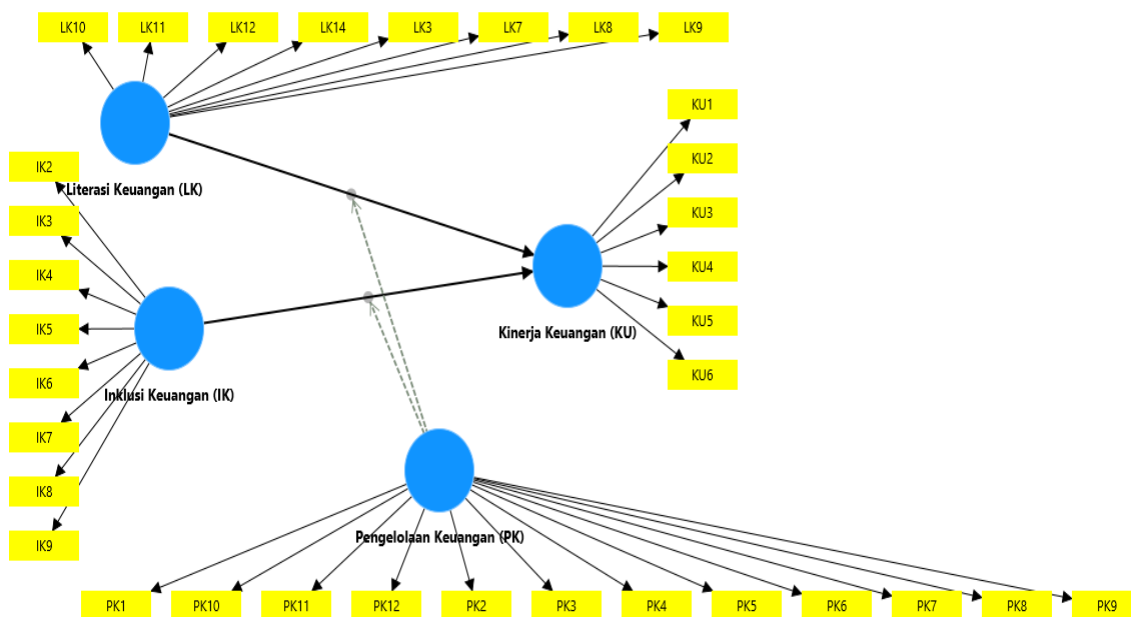


Figure 1. Inner Model Evaluation

Source: Primary Data Processed, 2024

The results of the test can be seen in table 6 below :

Table 6. Mean, STDEV, T-Values, P-Values

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistics ((O-STDEV)	P-Values
IK -> KU	0.44	0.44	0.07	6.22	0.00
LK -> KU	0.34	0.33	0.09	3.77	0.00
PK -> KU	0.09	0.09	0.09	0.97	0.33
PK x IK -> KU	0.01	0.02	0.09	0.17	0.86
PK x LK -> KU	-0.14	-0.11	0.12	1.20	0.23

Source: Primary Data Processed, 2024

Table 6 indicates that the P value for Financial Inclusion's impact on MSME Performance is 0.00, less than 0.05, showing that Financial Inclusion influences MSME Performance. Increasing financial inclusion will improve the performance of MSMEs in the Sleman area. Financial literacy substantially impacts the performance of MSMEs in the Sleman region, as evidenced by the P value of 0.00. The improvement of financial literacy positively impacts the performance of MSMEs.

The study outcomes showed that the P-value for Financial Management was 0.33 > 0.05, indicating that financial management did not affect MSME Performance in the Sleman Regency area. The study results indicated that the P value of Financial Management as a moderator of Financial Inclusion on MSME Performance is 0.86, beyond 0.05, signifying that management does not influence Financial Inclusion on MSME Performance in the Sleman Area. The P Value for Financial Management's moderation of Financial Literacy on MSME Performance is 0.23, beyond 0.05, indicating that Financial Management does not moderate the effect of Financial Literacy on MSME Performance in Sleman Regency.

The Effect of Financial Inclusion on MSME Performance

According to the study's findings, financial inclusion affects the performance of MSMEs in Sleman Regency. Effective financial inclusion can enhance the performance of MSMEs in Sleman Regency, Yogyakarta. Financial inclusion allows MSMEs to obtain better financing, such as bank loans or other financial institutions, to support business operations and development. Access to financial institution services helps MSMEs manage business risks. Utilization of service facilities and the Internet makes it easier to transact with customers and business partners. With financial inclusion, MSMEs can reduce dependence on more expensive or unstable informal financing sources. Financial inclusion can spur increased business profits; for example, with easy access to financing, it can spur additional business capital and increase the quantity and quality of production. Financial inclusion also helps in reducing financing from more expensive informal financing sources. The results of this study are supported by previous studies such as Martono & Febriyanti (2023), Sanistasya et al. (2019), and Yanti (2019), which state that Financial Inclusion has a positive influence on MSME performance. The study results by Putri et al. (2024) also show that financial inclusion positively affects the performance of MSMEs in Indonesia. The research of Septiani & Wuryani (2020) shows that financial inclusion positively affects the performance of MSMEs in the Sidoarjo region. The utilization of financial services provided by financial institutions for MSMEs is beneficial

in supporting their business performance so that it can improve the welfare of the owners, which will continue economic growth.

Financial literacy and inclusion are closely related and influence each other in the financial management of Micro, Small, and Medium Enterprises (MSMEs). The synergy of these two aspects enhances the capacity of MSMEs to access, manage, and utilize financial services to support the development and sustainability of their businesses. A comprehensive comprehension of financial concepts encourages MSME actors to be more active in utilizing formal financial services. This will encourage MSMEs to understand financial products and financial decision-making and increase accessibility to business credit.

The Influence of Financial Literacy on MSME Performance

The study findings indicate that Financial Literacy influences MSME Performance in Sleman Regency, Yogyakarta. Enhanced financial knowledge among MSMEs correlates with improved performance. Financial literacy impacts MSME owners' ability to make monthly budgets, financial reports, strategies to minimize financial risks and financial planning. SME owners with sound financial literacy can monitor cash flow and manage working capital more effectively. Financial literacy helps MSMEs understand and utilize financial products such as loans or investments to support operations. SMEs that understand finance can better plan expansion, product diversification, or innovation. Understanding financial principles effectively mitigates the risk of waste and guarantees that resources are utilized to their full potential. According to Sanistasya et al. (2019), Sari (2020), and Yanti (2019), the performance of micro, small, and medium-sized enterprises is positively influenced by financial literacy. The performance of MSMEs in Indonesia is also influenced by financial literacy, as demonstrated by the study results of Putri et al. (2024). The findings of this study are also corroborated by the research of Kasenda & Wijayangka (2019), which demonstrates that financial literacy influences the performance of MSMEs in the Rancaekek and Cileunyi Regions. Thorough comprehension of financial principles mitigates the risk of waste and guarantees that resources are utilized to their full potential. This underscores the significance of enhancing financial literacy either through training or workshops. Financial inclusion and financial literacy interact and influence each other. Enhanced access to financial services can augment the comprehension and proficiency of MSMEs in financial management. SMEs can get education from financial institutions and adopt fintech. Then, micro, small, and medium-sized enterprises (MSMEs) have easier access to financial services. They are more likely to be exposed to a broader range of financial management topics, eventually improving their financial literacy.

The Influence of Financial Management on MSME Performance

Based on the study's findings, one conclusion that can be reached is that the performance of micro, small, and medium-sized enterprises (MSME) is not affected by financial management. This may be because MSME actors in Sleman Regency, Yogyakarta, have not fully implemented financial management correctly and relevantly. Financial inclusion and financial literacy are other elements that exert a more substantial impact on financial performance. Any MSME actors do not yet have an adequate accounting system in Financial Management; financial practices are carried out manually and are not consistent. The low knowledge of financial management makes its impact feel unfelt. Any micro and small-scale MSME actors focus on survival rather than optimizing financial management. Although the findings of this study indicate that financial management does not significantly impact MSME performance, this does not reduce the

importance of sound financial management as part of healthy business practices. The study's findings are supported by previous studies conducted by Romero & Desiyanti (2023), which stated that financial management does not contribute significantly to MSME performance. The findings of this study are additionally corroborated by Bene et al. (2024), who showed that financial management behavior does not affect the performance of MSMEs in the Alok Timur District. The findings of this investigation contradict the research of Anggriani et al. (2023), who showed that Financial Management hurts MSME Performance in Dompu Regency. Mali's (2023) research also shows that management affects the performance of MSMEs in the Yogyakarta Culinary Sector. Financial Management of MSME businesses is generally still limited to simple recording, such as cash in and out, which does not significantly impact MSME performance. Ayem & Wahidah (2021) stated that the low quality of MSME financial reports in Sleman Regency causes the information presented to be irrelevant or misleading, so it cannot be relied on in managerial decision-making. This results in financial management being ineffective in improving MSME performance. According to Nenta & Astuti (2023), other actors, such as financial literacy, capital, and product innovation, influence MSME performance more in Sleman than in financial management. Good financial literacy allows MSME actors to make more appropriate financial decisions, while access to capital and the ability to innovate in products can directly improve business performance. Even though financial management is implemented, if it is not done correctly or does not match the specific needs of MSMEs, its impact on performance may be minimal. Lack of training or understanding of effective financial management practices may be the cause.

Financial Management Moderates Financial Inclusion on MSME Performance

The investigation's findings hint that Financial Management does not mediate the relationship between financial inclusion and MSME performance. Instead, financial inclusion directly influences MSME performance without dependence on Financial Management. Ease of access to credit and financial services has provided direct benefits to MSME actors, such as increased working capital. Many MSME actors do not yet have the skills or sound systems to utilize management optimally. Business actors still consider capital to be more important than financial management. Therefore, although financial management does not have a moderating effect in this study, it is still recommended that business actors improve their financial management capacity to derive the maximum benefit of financial inclusion. Although financial management did not find a moderating effect in this study, financial management is still important as a good business practice. This study's results shed light on the relationship between financial inclusion, financial management, and micro, small, and medium-sized enterprises (MSME) performance. The findings of this study align with the research conducted by Nengsih et al. (2022), Hervina (2022), and Anggriani et al. (2023), which states that financial management in MSMEs is critical and contributes to MSME performance. Until now, financial management has not yet been understood and is rarely used by MSME actors. This aligns with the research results, which state that MSME actors have not utilized financial management optimally. Research by Martono & Febriyanti (2023) and Telaumbanua et al. (2024) shows that financial inclusion and sound financial management can improve MSME performance. This aligns with the notion that individuals involved in a company must continuously strive to enhance their skills and capabilities.

For financial management, it is important to make the most of the opportunities presented by financial inclusion. Therefore, although financial management does not have

a moderating effect in this study, it is still recommended that business actors increase their financial management capacity to utilize financial inclusion more optimally.

Financial Management Moderates Financial Literacy on MSME Performance

According to this research, Financial Management does not moderate Financial Literacy on MSME Performance. Financial management does not strengthen or weaken this relationship. This is because the impact of financial literacy on financial performance is direct, without requiring additional influence from financial management. SMEs already have financial literacy knowledge but do not apply it consistently in managing their businesses. Micro and small business actors consider MSME performance more determined by capital factors than financial management.

Additionally, micro, small, and medium-sized enterprises (MSME) actors in the Sleman Regency of Yogyakarta have a fundamental understanding of financial literacy. However, they lack the resources and procedures necessary for efficient financial management. A clear indication of this is that the number of workers responsible for financial management is insignificant. Most employees are intended for production activities. High financial literacy is more related to direct strategic decisions without being moderated by the Financial management of their business.

This discovery is consistent with the research conducted by Musthafa et al. (2023), which indicated that although financial literacy is essential, many MSME actors do not yet have the resources or systems to implement effective financial management. This is consistent with the finding that MSME actors understand the basics of financial literacy but lack adequate financial management implementation. According to Aditia et al. (2023), micro, small, and medium-sized enterprises (MSMEs) can boost their company performance by integrating financial literacy with effective financial management. Although financial literacy directly impacts the process, implementing good financial management remains crucial to achieving optimal performance. Romain et al. (2021) discovered that financial literacy and financial management significantly impact the performance of MSMEs in Malang City. Understanding and implementing sound financial management can enhance the overall performance of MSMEs. Eniola & Entebang (2017) highlighted that financial literacy contributes considerably to business decision-making, but without sound financial management system support, MSMEs remain vulnerable to financial instability. This contradicts the current study's findings, which state that financial literacy directly impacts without the need for moderation by financial management.

Meanwhile, Adomako et al. (2016) emphasized that the relationship between financial literacy and business performance can depend on the context of the business environment. Financial management is vital in optimizing financial literacy in some conditions, especially in more developed MSMEs. However, in MSMEs still in the early stages or micro, the capital and operational aspects are more dominant than formal financial management. This study provides implications that financial literacy is important to be applied directly in business decision-making, even if formal financial management is not always carried out.

CONCLUSION

The study's results indicate that financial literacy affects the financial performance of Sleman Regency. Financial inclusion affects the financial performance of MSME

actors in the Sleman Regency. Financial management does not affect the financial performance of MSME actors in the Sleman Regency. Financial management does not strengthen financial literacy on financial performance. Financial management does not strengthen financial inclusion in the financial performance of MSME actors in the Sleman Regency. The findings of this study underscore the importance of enhancing financial literacy by establishing organizations that offer training and mentorship opportunities. These programs aim to raise awareness of the dangers that arise from a lack of financial literacy, such as improper management of debt or inappropriate investment choices. It is important to seek information about financial products that suit business needs. This study is limited to various internal elements influencing MSME performance; thus, additional research is necessary to uncover external determinants. External determinants that can be considered for further research include marketing access, government support, business competition, regulations and policies, economic conditions, and social and cultural environments.

REFERENCES

- Aditia, R. F., Ali, M., & Jilbert, J. (2023). The Influence of Financial Kiteracy and Financial Management on The Performance of SMEs in Makassar City. *Paulus Journal of Accounting (PJA)*, 5(1), 86–94. <https://ojs.ukipaulus.ac.id/index.php/pja/article/view/252>
- Adomako, S., Danso, A., & Ofori Damoah, J. (2016). The Moderating Influence of Financial Literacy on The Relationship between Access to Finance and Firm Growth in Ghana. *Venture Capital*, 18(1), 43–61. <https://doi.org/10.1080/13691066.2015.1079952>
- Anggriani, I., Armiani, A., & Wahyullah, M. (2023). The Influence of Financial Inclusion, Financial Literacy, and Financial Management on MSME Performance in Dompu Regency. *Kompeten: Jurnal Ilmiah Ekonomi Dan Bisnis*, 2(3), 598–609. <https://doi.org/10.57141/kompeten.v2i3.89>
- Ayem, S., & Wahidah, U. (2021). Factors Affecting Financial Performance of MSMEs in Yogyakarta City. *JEMMA (Journal of Economic, Management and Accounting)*, 4(1), 1–9. <https://doi.org/10.35914/jemma.v4i1.437>
- Bahiu, E. L. U., Saerang, I. S., & Untu, V. N. (2021). The Effect of Financial Literation, Financial Management on MSME Financies in Gemeh Village, Talaud Islands District. *Jurnal EMBA*, 9(3), 1819–1828. <https://ejournal.unsrat.ac.id/index.php/emba/article/view/36009>
- Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*, 17(1), 99–120. <https://doi.org/10.1177/014920639101700108>
- Bene, F., Sanga, K. P., & Romario, F. De. (2024). The Influence of Financial Literacy on The Financial Performance of Micro, Small and Medium Enterprises (MSMEs) with Financial Management Behavior as An Intervening Variable. *Inisiatif: Jurnal Ekonomi, Akuntansi Dan Manajemen*, 3(4), 327–341. <https://doi.org/10.30640/inisiatif.v3i4.3162>
- Biswas, G. K., & Ahamed, F. (2023). Financial Inclusion and Monetary Policy: A Study on The Relationship between Financial Inclusion and Effectiveness of Monetary Policy in Developing Countries. *ECON*, 1–9. <https://arxiv.org/abs/2308.12542>

- Chepngetich, P. (2016). Effect of Financial Literacy and Performance SMEs. Evidence from Kenya. *American Based Research Journal*, 5(11), 26–35. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2882997
- Dermawan, T. (2019). *The Influence of Literacy, Inclusion and Financial Management on The Performance and Sustainability of MSMEs (Study on Micro Business Actors of Brawijaya University Students)* [Brawijaya University]. <https://repository.ub.ac.id/id/eprint/178974/>
- Desiyanti, R., & Kassim, A. A. M. (2020). Financial Literacy on Business Performance: The Moderating Effect of Religiosity among SMEs in Sumatera, Indonesia. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 10(2), 87–99. <https://doi.org/10.6007/IJARAFMS/v10-i2/7371>
- Eniola, A. A., & Entebang, H. (2017). SME Managers and Financial Literacy. *Global Business Review*, 18(3), 559–576. <https://doi.org/10.1177/0972150917692063>
- Farwitawati, R. (2018). Financial Management for Micro, Small, and Medium Enterprises (MSMEs) in Airputih Village, Tampan District, Pekanbaru City. *Prosiding Sembadha*, 1, 225–229. <https://jurnal.pknstan.ac.id/index.php/sembadha/article/view/376>
- Ghozali, I., & Latan, H. (2015). *Partial Least Squares: Concepts, Techniques and Applications Using The SmartPLS 3.0 Program*. Semarang: Badan Penerbit UNDIP.
- Handoko, T. H. (2020). *Personnel and Human Resource Management* (2nd ed.). Yogyakarta: BPFE.
- Hertadiani, V. W., & Lestari, D. (2021). The Influence of Financial Inclusion and Financial Management on The Performance of MSMEs in The Culinary Sector in East Jakarta. *Kalbisocio, Jurnal Bisnis Dan Komunikasi*, 8(2), 19–31. <http://ojs.kalbis.ac.id/index.php/kalbisocio/article/view/173>
- Hervina. (2022). *Financial Management Analysis of Micro, Small and Medium Enterprises (MSMEs) in Takalar Regency* [Muhammadiyah University of Makassar]. https://digilibadmin.unismuh.ac.id/upload/38410-Full_Text.pdf
- Hilmawati, M. R. N., & Kusumaningtiyas, R. (2021). Financial Inclusion and Financial Literacy on The Performance and Sustainability of The Micro, Small and Medium Enterprise Sector. *Nominal: Barometer Riset Akuntansi Dan Manajemen*, 10(1), 135–152. <https://doi.org/10.21831/nominal.v10i1.33881>
- Ibor, B. I., Offiong, A. I., & Mendie, E. S. (2017). Financial Inclusion and Performance of Micro, Small and Medium Scale Enterprises in Nigeria. *International Journal of Research -GRANTHAALAYAH*, 5(3), 104–122. <https://doi.org/10.29121/granthaalayah.v5.i3.2017.1758>
- Jensen, M. C., & Meckling, W. H. (1976). Theory of The Firm: Managerial Behavior, Agency Costs and Ownership Structure. *Journal of Financial Economics*, 3(4), 305–360. [https://doi.org/10.1016/0304-405X\(76\)90026-X](https://doi.org/10.1016/0304-405X(76)90026-X)
- Kasenda, B. S., & Wijayangka, C. (2019). The Influence of Financial Literacy on MSME Performance. *Almana: Jurnal Manajemen Dan Bisnis*, 3(1), 153–160. <https://journalfeb.unla.ac.id/index.php/almana/article/view/459>
- Khaeru, A. S., Rinjani, A., Hidayaty, D. E., & Sandi, S. P. H. (2023). The Importance of Financial Literacy in UMKM Jasa Mm Acc Karawang. *INNOVATIVE: Journal Of*

- Social Science Research*, 3(3), 2911–2918. <https://j-innovative.org/index.php/Innovative/article/view/2431>
- Khurana, S., Haleem, A., Luthra, S., & Mannan, B. (2021). Evaluating Critical Factors to Implement Sustainable Oriented Innovation Practices: An analysis of Micro, Small, and Medium Manufacturing Enterprises. *Journal of Cleaner Production*, 285(125377). <https://doi.org/10.1016/j.jclepro.2020.125377>
- Kizza, J. (2019). Financial Literacy and Financial Performance of Small and Medium Enterprises in Uganda. *International Journal of Research and Innovation in Social Science (IJRISS)*, 3(10), 666–674. <https://rsisinternational.org/journals/ijriss/Digital-Library/volume-3-issue-10/666-674.pdf>
- Kusumadewi, R. N. (2017). The Influence of Locus of Control and Financial Literacy on SME Performance in SME Actors in Rawa Village, Cingambul District, Majalengka Regency. *Prosiding Seminar Nasional LPPM Unsoed*, 7(1).
- Mali, M. S. (2023). The Influence of Financial Inclusion, Financial Management, on The Performance of MSMEs in The Culinary Sector in Yogyakarta City. *J-MAS (Jurnal Manajemen Dan Sains)*, 8(1), 291–296. <https://doi.org/10.33087/jmas.v8i1.985>
- Martono, S., & Febriyanti, R. (2023). The Effect of Financial Inclusion, Financial Literacy and Financial Management on The Performance of MSMEs in Salatiga City. *Jurnal Ekonomi Pendidikan Dan Kewirausahaan*, 11(2), 153–168. <https://doi.org/10.26740/jepk.v11n2.p153-168>
- Musthafa, I., Handra, H., Bachtiar, N., Taifur, W. D., & Ariyanto, E. (2023). Financial Literacy and Performance of Micro, Small and Medium Enterprises: A Literature Review. *Marginal Journal of Management Accounting General Finance and International Economic Issues*, 3(1), 287–303. <https://doi.org/10.55047/marginal.v3i1.956>
- Nengsih, T. A., Orinaldi, M., & Nurwahid, Y. (2022). MSME Gaps in Financial Management: A Study in Jambi City. *Eksis: Jurnal Ilmiah Ekonomi Dan Bisnis*, 13(2), 78–83. <https://doi.org/10.33087/eksis.v13i2.299>
- Nenta, Y. A., & Astuti, T. D. (2023). The Influence of Financial Literacy, Capital, and Product Innovation on MSME Performance in Sleman. *Jurnal Ilmiah Akuntansi Peradaban*, 9(2), 210–229. <https://doi.org/10.24252/jiap.v9i2.42214>
- Nizar. (2021). *90 Percent of MSME Sector in Bandung City Affected by Pandemic*. JabarEkspres.Com. <https://jabarekspres.com/berita/2021/07/15/90-persen-sektor-umkm-di-kota-bandung-terkena-dampak-pandemi/>
- OJK. (2022). *Infographics of The Results of The 2022 National Survey of Financial Literacy and Inclusion*. [https://ojk.go.id/id/berita-dan-kegiatan/info-terkini/Documents/Pages/Infografis-Survei-Nasional-Literasi-dan-Inklusi-Kuangan-Tahun-2022/Infografis Hasil Survei Nasional Literasi dan Inklusi Keuangan Tahun 2022.pdf](https://ojk.go.id/id/berita-dan-kegiatan/info-terkini/Documents/Pages/Infografis-Survei-Nasional-Literasi-dan-Inklusi-Kuangan-Tahun-2022/Infografis%20Hasil%20Survei%20Nasional%20Literasi%20dan%20Inklusi%20Keuangan%20Tahun%202022.pdf)
- Putri, D., Harahap, I., Sugiarti, S., & Efendi, B. (2024). Improving The Financial Performance of MSME in Indonesia through Financial Literacy and Financial Inclusion. *Jurnal Ilmiah Edunomika*, 8(1), 1–10. <https://jurnal.stie-aas.ac.id/index.php/jie/article/view/11334>
- Romero, A. R., & Desiyanti, R. (2023). The Influence of Financial Literacy, Financial

- Management on MSME Performance and Business Continuity in Padang Pariaman Regency. *Kumpulan Executive Summary Mahasiswa Prodi Manajemen Wisuda Ke 79 Tahun 2023*, 22(2). <https://ejournal.bunghatta.ac.id/index.php/JFEK/article/view/22509>
- Rumain, I. A. S., Mardani, R. M., & Wahono, B. (2021). The Influence of Financial Literacy and Financial Management on Financial Performance in MSMEs in Malang City. *E – Jurnal Riset Manajemen Prodi Manajemen*, 10(8), 66–80.
- Sanistasya, P. A., Rahardjo, K., & Iqbal, M. (2019). The Influence of Financial Literacy and Financial Inclusion on Small Business Performance in East Kalimantan. *Jurnal Economia*, 5(1), 48–59.
- Sari, N. P. (2020). The Influence of Intellectual Capital on Business Performance in SMEs in Sidoarjo Regency (Empirical Study on SMEs in The Industrial Sector). *AKUNESA: Jurnal Akuntansi Unesa*, 8(3), 1–8. <https://ejournal.unesa.ac.id/index.php/jurnal-akuntansi/article/view/32259>
- Septiani, R. N., & Wuryani, E. (2020). The Influence of Financial Literacy and Financial Inclusion on The Performance of MSMEs in Sidoarjo. *E-Jurnal Manajemen Universitas Udayana*, 9(8), 3214–3236. <https://doi.org/10.24843/EJMUNUD.2020.v09.i08.p16>
- Supriadi, A., & Utami, F. (2021). Financial Performance Analysis of Shoe and Sandal SMEs in Sindangsari Village, Pabuaran District, Serang Regency. *Jurnal Sains Sosio Humaniora*, 5(2), 732–741. <https://doi.org/10.22437/jssh.v5i2.15779>
- Telaumbanua, W. F., Harefa, I., Zai, K. S., & Telaumbanua, A. (2024). The Influence of Financial Inclusion and Financial Management on MSME Performance in Gunungsitoli City. *Jurnal Ekonomi Bisnis, Manajemen Dan Akuntansi (JEBMA)*, 4(3), 1946–1964. <https://doi.org/10.47709/jebma.v4i3.4749>
- Tharmini, T., & Lakshan, A. M. I. (2021). Impact of Financial Management Practices on Performance of Small and Medium Enterprises – Legitimacy Theory Perspectives. *Kelaniya Journal of Management*, 10(1), 43–64. <https://doi.org/10.4038/kjm.v10i1.7666>
- Wulandari, I., & Utami, E. S. (2020). Family Financial Planning and Management of Housewives in Pasekan Lor Hamlet, Balecat, Gamping, Sleman, Yogyakarta. *Jurnal Abdimas BSI: Jurnal Pengabdian Kepada Masyarakat*, 3(2), 236–243. <https://doi.org/10.31294/jabdimas.v3i2.7209>
- Wulansari, N. A., & Anwar, M. (2022). The Influence of Financial Literacy and Business Financial Management on Financial Performance of Shoe and Sandal MSMEs in The Former Dolly Localization Area. *Syntax Literate: Jurnal Ilmiah Indonesia*, 7(3). <https://jurnal.syntaxliterate.co.id/index.php/syntax-literate/article/view/6428>
- Yanti, W. I. P. (2019). The Effect of Financial Inclusion and Financial Literacy on The Performance of MSMEs in North Moyo District. *Jurnal Manajemen Dan Bisnis*, 2(1), 1–10. <https://doi.org/10.37673/jmb.v2i1.305>