

Research Article

MSME Financial Performance Model in East Java

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Abstract: This research studies quantitative and including type study explanatory/associative accompanied with a testing hypothesis; its population is MSME actors in Java East (Malang, Gresik, Pasuruhan, Sidoarjo, And City Surabaya). Sample size in study This includes as many as 250 MSME actors with method purposive sampling with criteria Still active try until month December 2023, perpetrator MSMEs at a time as owner, active working for at least 5 years. Data analysis uses Structural Equation Modeling - Partial least Square with the help of Liisrel software. This research discusses the financial performance of MSMEs, and this needs to be analyzed because MSMEs contribute 60% of GDP and are able to absorb 57.23% of the workforce. The research aims to test the MSME financial performance model. The research results show 1) financial literacy and financial technology have a significant effect on financial inclusion, and 2) financial literacy, financial technology, and financial inclusion have a significant effect on financial performance.

Keywords: Model, Financial Performance, MSMEs.

JEL classification: D23, O17, H10.

I. INTRODUCTION

The economy is heading towards an economic recession due to the Covid 19 pandemic. Negative economic growth or decline on a national and international level characterizes this. With economic growth of -5.3% in the second quarter of 2020, the national economy as a whole only saw a contraction. Micro, Small, and Medium-Sized Enterprises (MSMEs) were severely impacted by the COVID-19 outbreak, which also led to a downturn in the country's economy. This makes sense, given that MSMEs significantly boost the country's GDP.

The outcome of numerous decisions made consistently by management determines the financial achievement of MSMEs. The backbone of East Java's economy, Micro, Small, and Medium-Sized Enterprises (MSMEs), was badly impacted. Generally speaking. The COVID-19 pandemic has had a significant impact on East Java, where micro, small, and medium-sized enterprises (MSMEs) are the backbone of the national economy. This impact is evident not only in measures of overall manufacturing and commerce value but also in the financial performance of the MSMEs. According to a Ministry of Finance study, the COVID-19 pandemic has detrimental effects on the domestic economy, including declining purchasing power and consumption, a decline in business performance, risks to the banking and financial sectors, and a decrease in the number of MSMEs (Pakpahan, 2020). In particular, there are 163,713 MSMEs affected by the pandemic. According to the Indonesian Ministry of Cooperatives and MSMEs, approximately 37,000 MSMEs complained that the pandemic had a significant negative impact on their businesses. Of these, 56% mentioned declining sales, 22% had financing issues, 15% had issues with product distribution, and 4% had trouble obtaining raw materials.

The spread of the Covid-19 virus has had an impact on MSMEs in Indonesia, including East Java. The COVID-19 pandemic has paralyzed MSMEs, resulting in a drop in trade activity in the form of decreased sales and capital difficulties. This has led to a decline in the role of MSMEs as the backbone of the economy. The results of the Balitbang study (2021) show that MSMEs experienced an average decline in sales of 61%, an average decrease in operating profit of 61%, an increase in capital problems to 71.4%, MSMEs reduced the number of employees on average by 22%. , and almost all MSMEs experienced a decline in their ability to pay bank installments.

Numerous things can influence a company's financial performance. The Resource Based View hypothesis is one hypothesis that describes the variables that affect financial performance (RBV). Financial inclusion can have an impact on financial success, according to the resource-based view theory (RBV). The state of financial inclusion is characterized by the provision of financial services and goods to all people at reasonable costs and of high quality, with the goal of enhancing their well-being (Gardeva and Rhyne, 2011).

Financial literacy can also have an impact on financial inclusion and performance. The Resource-Based View Theory underpins the relationship between financial literacy and financial performance, whereas the Theory of Planned Behavior influences the relationship between financial literacy and financial inclusion. The ability to recognize and comprehend financial



risks and perceptions, as well as the skills and self-assurance necessary to make wise decisions that would improve one's own financial well-being, is known as financial literacy (OECD, 2016).

According to RBV theory, financial inclusion is where financial technology influences financial performance, and financial literacy and financial technology influence financial performance, based on the TPB. Financial technology can be characterized as a way to combine all financial technology areas in order to facilitate commercial activities such as buying and selling and providing services to users (Ion and Alexandra, 2016). Many studies related to financial performance have been conducted previously and have produced inconsistencies. Salsabila's (2021) and Hidayatulloh's (2020) research shows that financial inclusion has a positive and significant effect on financial performance, while Hilmawati and Kusumaningtias's (2021) research shows that financial inclusion does not affect the performance of MSMEs. Wahyudi's research (2021) and Hilmawati and Kusumaningtias's (2021) research show that financial literacy has a positive and significant influence on the performance of MSMEs, while Syahdanadarma & Hidayati's (2019) research shows that financial literacy does not influence financial performance. Research conducted by Simanjuntak (2021) 2019) and research by Sari & Kautsar (2020) namely that financial literacy has a substantial and favorable impact on financial inclusion. In contrast, financial literacy has little bearing on financial inclusion, according to studies conducted by Natalia et al. (2020). For research objectives to demonstrate the validity of the MSME financial performance approach, the effects of financial education, financial literacy, and financial technology on economic performance, as well as on financial inclusion and financial performance itself, were examined.

II. LITERATURE REVIEW

A) *Financial performance*

Sutrisno (2009) explains that financial performance is the financial achievement of an organization during a certain period, which describes the health of the organization. One way to find out and measure the financial performance of SMEs is to analyze report financial ones available (Winbaktianur and Siregar, 2021). In financial report analysis, the financial performance of SMEs is measured by the amount of assets acquired by SMEs during a certain time period, turnover or sales volume, and business profits (Desiyanti, 2022).

Numerous things can influence the financial success of a business. The Resource Based View hypothesis is one hypothesis that describes the variables that affect financial performance (RBV). Financial inclusion can have an impact on financial success, according to the resource-based view theory (RBV). The state of financial inclusion is characterized by the provision of financial goods and services to all people at reasonable costs and of high quality, with the goal of enhancing their well-being (Gardeva and Rhyne, 2011).

Financial literacy can also have an impact on financial inclusion and performance. The Resource-Based View Theory underpins the relationship between financial literacy and financial achievement, whereas the Theory of Planned Behavior influences the relationship between financial literacy and financial inclusion. The ability to recognize and comprehend monetary hazards and opinions, as well as the skills and self-assurance necessary to make wise decisions that would improve one's own financial well-being, is known as financial literacy (OECD, 2016).

Financial technology is another factor that affects both financial participation and performance. The RBV theory underpins the relationship between financial literacy and achievement, while the TPB supports the relationship between financial technology and performance. Financial technology can be characterized as a way to combine all financial technology sectors in order to facilitate commercial activities such as buying and selling and providing services to users (Ion and Alexandra, 2016).

B) *Financial Inclusion*

Inclusion is a term that describes that people are able to utilize financial products or services properly and appropriately. In economic activities, this is quite important because it can help make the economic level even across all levels of society. Inclusion Programs are needed to make the financial system easily accessible. Financial Inclusion Indicators: 1) Availability/access, 2) use, 3) quality, 4) welfare. (Rizki, 2021).

C) *Financial Literacy*

Indonesia and other developing nations frequently have unstable economic systems. When a financial crisis arises, having an unstable economic structure may make it more difficult for developing nations to obtain loans or increase costs. Due to the fact that MSMEs are one of the main forces behind Indonesia's economy, financial literacy is crucial. Financial literacy helps MSMEs prepare themselves for difficult financial times by reducing risks such as accumulating savings, diversifying assets and purchasing insurance (World Bank, 2009). According to Mendari & Kewal, 2013 indicators of financial literacy include 1) basic financial knowledge, 2) savings and loans, 3) insurance, 4) investment.

According to Remund (2010), the definition of financial literacy is divided into 5 categories: 1) Knowledge of financial concepts, 2) Ability to communicate about financial concepts, 3) Attitudes to personal financial management, 4) Ability to make

financial decisions effectively, 5) Trust themselves in planning their financial needs effectively.

Based on the concept and definition, a company's financial understanding and literacy are valuable advantages, particularly for small enterprises. To be financially literate, a person has to feel comfortable making decisions about their finances using what they know about money. The ability to use financial knowledge correctly is just as important as having knowledge of it. This is how financial literacy is tested.

D) Financial Technology

The advancement of progressively complex technologies will facilitate and expand economic prospects for all. Every year, there will be notable advancements in technology with the ultimate goal of developing a more advanced system that can revolutionize and simplify every work performed by humans. According to Yahya and Ahmad, 2019, Fintech is a financial service to increase the effectiveness and efficiency of financial services.

One of the technological developments is also felt in Indonesia. Together with the advancement of science in the fields of information and communication, technology is currently developing quickly in Indonesia. This allows the country to produce tools which promote the advancement of information technology, such as networks of communication with one-way and two-way interaction tools.

Financial Technology, which has been included in the conventional financial system, is slowly entering the MSME financial system. The Fintech business is growing rapidly in Indonesia because the existence of Fintech provides many conveniences for human needs in carrying out financial transactions, such as payments, buying and selling and other transactions through technology.

III. HYPOTHESIS DEVELOPMENT

This research conceptual framework develops the research model from (Nkundabanyanga et al., 2014), namely proving the model: 1) The Effect of Financial Literacy and Financial Technology on Financial Inclusion. 2) The influence of financial literacy, financial technology and financial inclusion on financial performance. Be following is your concept adopted from the study by Nkundabanyanga et al. (2014), which is explained in Figure 1.

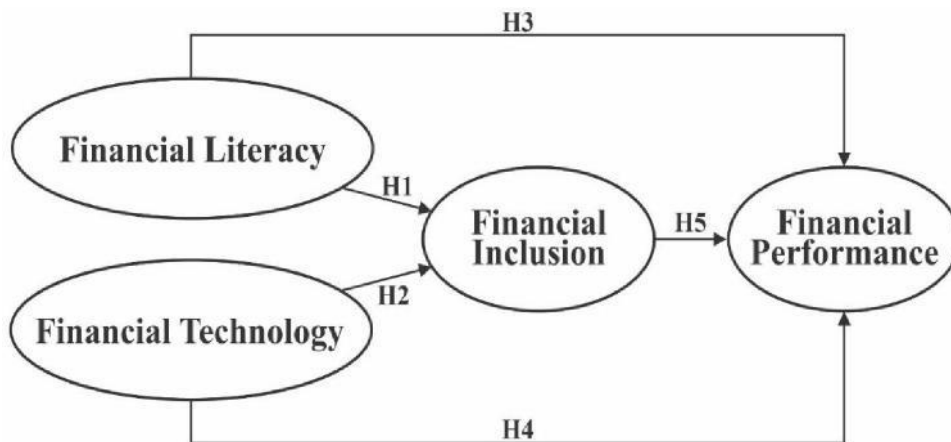


Figure 1. Conceptual Framework (Nkundabanyanga et al., 2014)

In this study the dependent and independent variables came from research by Nkundabanyanga et al. (2014). In measuring the financial literacy variable as an independent variable, dimensions are used that are adopted from research by Mendari & Kewal (2013)

The theory that explains the influence of financial literacy on financial inclusion is the Theory of Planned Behavior (TPB). A good level of financial literacy will make it easier to apply information and access and utilize financial products and services, followed by financial inclusion. Grohmann & Menkohoff's Research Results (2021), Adetunji & David-West (2019), and Subanidja et al. (2022) show that financial literacy has a significant and positive effect on financial inclusion, with good financial literacy, the ability to choose financial products and services becomes wiser. Based on the theory put forward and the results of previous research, the first hypothesis of this research is:

H1: Financial Literacy has a significant effect on Financial Inclusion

The influence of financial technology on financial inclusion can also be explained by the Theory of Planned Behavior (TPB). The existence of financial technology that can be utilized by society where it has not been used before will generate inclusive

financial growth. Subanidja et al.'s research (2022), Irman (2021), and Marini et al. (2020) show that financial technology has a significant influence on financial inclusion. Based on the theory put forward and the results of previous research, the second hypothesis of this research is:

H2: Financial Technology's Significant Effect on Financial Inclusion

The influence of financial literacy on financial performance can be explained by the Resource Based View Theory (RBV). This theory states that financial performance will be good if the ability to manage tangible and intangible assets is good enough. Intangible assets here can be interpreted as knowledge including financial literacy knowledge. This can be explained if someone has good literacy then financial performance will increase. Research conducted by Yakop et al. (2021), Zulkieflimansyah et al. (2020), Jemal (2019), and Esiebugie et al. (2018) said that the performance of one's finances is significantly impacted by financial literacy. Based on the theory put forward and the results of previous research, the third hypothesis of this research is:

H3: Financial Literacy has a significant effect on Financial Performance

The influence of financial technology on financial performance can be explained by the Resource Based View Theory (RBV). According to this notion, having high financial performance depends on your ability to handle both tangible and intangible assets with efficiency and effectiveness. Financial technology can be interpreted as an intangible asset. This can be explained if someone can make good use of financial technology then financial performance will increase. Research conducted by Lubis et al. ((2019), Hamidah et al. (2020), and Desiyanti et al. (2020) shows that financial technology has a significant influence on financial performance. Based on the theory put forward and the results of previous research, the fourth hypothesis of this research is:

H4: Financial Technology's Significant Effect on Financial Performance

The influence of financial inclusion on financial performance can be explained by the Resource Based View Theory (RBV). This hypothesis describes how financial inclusion affects financial performance. The findings of the research corroborate those of Salsabila (2021), Hidayatulloh (2020), Rahajeng et al. (2023), where financial inclusion has a significant effect on financial performance. Based on the theory put forward and the results of previous research, the fifth hypothesis of this research is:

H5: Financial Inclusion has a significant effect on Financial Performance

IV. METHOD

This research is studied quantitatively, and the population is MSME actors in East Java (Malang, Gresik, Pasuruhan, Sidoarjo and Kota Surabaya). The sample size in the study this as many as 250 MSME actors using the *stratified random sampling method* with the criteria of still actively trying. Until December 2023, MSME players, as well as owners, will be actively trying for a minimum of 5 years. Technique analysis data in the study This uses the *Structural Equations Model (SEM)* with the program Lisrel (*LINEAR Structural Relations*). From the data, the questionnaire has been collected furthermore, processed, and analyzed in accordance with the needs of the study. Results from analysis of the further used answer problem determined.

Table 1. Operational Definition of Variables

No	Variable	Draft Variable	Indicator
1	Financial Literacy (Free variable)	Description of the feelings of MSME actors in accepting or rejecting loan facilities offered by official financial institutions or unofficial	1. basic financial knowledge 2. savings and loans, 3. insurance, 4. investment.
2	Financial Technology (Independent variable)	Perception perpetrator MSMEs obtained from the view And encouragement of family, friends, and fellow MSME actors, other	1. efficiency of use, 2. smooth use, 3. safety of use, 4. reliability of the payment system.
3	Financial Inclusion (Dependent variable)	Characteristics risk perpetrator MSMEs Which tend to direction individual Which brave take the risk with base calculation adequate	1. Availability/access, 2. use, 3. quality, 4. well-being.
4	Financial Performance (Dependent variable)		1. funding policy, 2. cash availability,

	Ability perpetrator MSMEs in looking for information to obtain external funds from businesses.	3. Timely payment of obligations 4. effectiveness of inventory management 5. ability to generate profits
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Source: Nkundabanyanga, et al. (2014), Susan (2012), Mendari & Kewal (2013)

V. RESEARCH RESULTS AND DISCUSSION

A) Descriptive Statistical Analysis

The following shows the Descriptive Statistical Analysis of this research as shown in table 2,

Table 2. Descriptive Statistics

Variable	Indicator	Mean Indicator	Variable Mean	Standard Deviation
Financial Literacy (X1)	basic financial knowledge	2.748	2.766	1.00825
	savings and loans,	2.768		1.01504
	insurance,	2.824		1.04181
	investment.	2.724		1.00192
Financial Technology (X2)	efficiency of use,	2.732	2.777	1.03947
	smooth use,	28,800		0.99477
	safety of use,	2.808		1.04667
	reliability of the payment system.	2.688		1.02119
Financial Inclusion (z)	Availability/access,	2.928	2.908	1.07678
	use,	29,200		1.04209
	quality,	2.852		1.06708
	well-being.	2.932		1.03327
Financial (y)	funding policy,	3.112	3.1704	1.03136
	cash availability,	3.152		1.10534
	timely payment of obligations	2.988		1.01587
	effectiveness of inventory management	3.252		1.5318
	ability to generate profits	3.348		1.058

Source: Researcher processed data (2024)

The results of descriptive statistical calculations that appear in Table 4 show that the mean indicators and mean variables are greater than the standard deviation, meaning that the movement of the five variables, namely financial literacy, financial technology, financial inclusion and financial performance, does not fluctuate sharply but experiences low fluctuations or tends to be gentle. A relatively uniform standard deviation between variables indicates a similar degree of dispersion or variation around the mean for each variable. The number of valid data for each variable is 250, indicating that there are no missing values or missing data.

Thus, the data show that there are no striking anomalies, and the variables have a fairly uniform distribution across the range of values, which makes them suitable for further analysis.

B) Validity and Reliability Test

The results of the Validity and Reliability Tests, as shown in Table 3, show that the research instruments used in this study are suitable for use in data collection.

Table 3. Validity and Reliability Test

Variable	SLF	Error	Validity	CR	VE	Reliability	Information
Z12	0.85	0.28	Valid	0.91705	0.64	Reliable	CR cut off > 0.7 & VE cut off > 0.5
Z13	0.93	0.13	Valid				
Z14	0.88	0.23	Valid				

Y11	0.75	0.44	Valid	0.80258	1.97	Reliable
Y12	0.75	0.43	Valid			
Y14	0.72	0.47	Valid			
Y15	0.61	0.63	Valid			
X11	0.81	0.34	Valid	0.90999	1.13	Reliable
X12	0.85	0.27	Valid			
X13	0.84	0.29	Valid			
X14	0.88	0.23	Valid			
X21	0.67	0.56	Valid	0.89684	1.23	Reliable
X22	0.96	0.07	Valid			
X23	0.96	0.07	Valid			
X24	0.68	0.53	Valid			

Source: Researcher processed data (2024)

Validity and reliability testing presented in Table 5 shows that all statement items from the four variables: financial inclusion (Z), financial performance (Y), financial literacy (X1) and financial technology (X2) have an SLF above 0.5. This indicates that the variable has a strong relationship with the measured factors and can be considered valid. Meanwhile, for the reliability test, the calculation results show that all variables with CR above 0.7 and VE above 0.5 can be said to be considered reliable. So, based on the table above, all variables have SLF, CR, and VE, which meet the validity and reliability criteria.

C) Goodness Of Fit Model Testing

There is no one statistical test instrument that can be used in SEM analysis to quantify or test model hypotheses. The degree of appropriateness between the proposed model and the data is often assessed using a variety of fit indicators. Goodness of fit Absolute Fit Measures as shown in the table below.

Table. 4 Goodness of Fit

No	GoF size	Value	Match Level
1	Root Mean Square Error of Approximation (RMSEA)	It has a value of 0.10 with a 90% confidence interval between 0.92 and 0.11	A low RMSEA value indicates that the model is a good fit for the data.
2	Expected Cross-	It has a value of 1.97 with a 90% confidence interval between 1.74 and 2.24	A low ECVI value indicates that the model is a good fit for the data.
3	Comparative Fit Index (CFI)	Has a value of 0.94	All fit indices show high values. This means that the model is a good fit for the observation data.
	Normed Fit Index (NFI)	Has a value of 0.92	
	Non-Normed Fit Index (NNFI)	Has a value of 0.93	
	Incremental Fit Index (IFI)	Has a value of 0.94	
	Relative Fit Index (RFI)	Has a value of 0.90	
4	Root Mean Square Residual (RMR)	Has a value of 0.16	This shows that there is a relatively small residual error in the

Source: Researcher processed data (2024)

Based on the calculation results presented in the table above, it shows that the model has good agreement with the data. So that the model used as a whole is able to explain the relationship between the variables being observed well

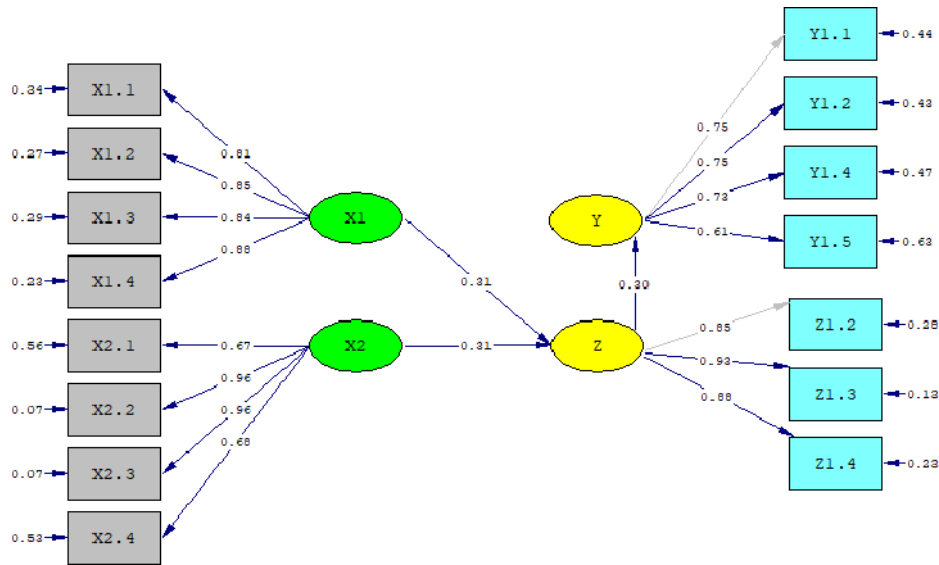


Figure 2. Influence between variables

Source: Researcher processed data (2024)

Figure 2 above explains the influence of each statement on the variables, financial inclusion, financial performance, financial literacy and financial technology as follows:

Inclusion variable (Z1)

1. Statement regarding the use of funds (Z1.2): The effect of the use of funds (Z1.2) on financial inclusion (Z) is positive and significant as indicated by the beta coefficient = 0.88, $p < 0.001$. The statement of use of funds (Z1.2) explains 0.72 (72%) of the variability in financial inclusion (Z).
2. Statement regarding decision quality (Z1.3): The influence of decision quality (Z1.3) on financial inclusion (Z) is very strong and significant, as indicated by beta coefficient = 0.99, $p < 0.001$. This statement explains 0.87(87%) of the variability in financial inclusion (Z).
3. Welfare statement (Z1.4): The effect of welfare (Z1.4) on financial inclusion (Z) is positive and significant, as shown by the beta coefficient = 0.91, $p < 0.001$. This statement explains 0.77 (77%) of the variability in financial inclusion (Z)

Financial Performance Variable (Y1)

1. Funding policy statement (Y1.1): The effect of funding policy (Y1.1) on financial performance (Y) is positive and moderate, as indicated by the beta coefficient = 0.77, $p < 0.001$. The funding policy statement (Y1.1) explains 0.56 (56%) of the variability in financial performance (Y).
2. Statement of cash availability (Y1.2): The effect of cash availability (Y1.2) on financial performance (Y) is positive and moderate, as shown by the beta coefficient = 0.83, $p < 0.001$. The cash availability statement explains 0.57 (57%) of the variability in financial performance (Y).
3. Statement of inventory management effectiveness (Y1.4): The effect of inventory management effectiveness (Y1.4) on financial performance (Y) is positive and moderate, as indicated by beta coefficient = 0.84, $p < 0.001$. The statement of inventory management effectiveness explains 0.53 (53%) of the variability in financial performance (Y).
4. Statement of ability to generate profits (Y1.5): The effect of ability to generate profits (Y1.5) on financial performance (Y) is positive but weak, as indicated by beta coefficient = 0.64, $p < 0.001$. The statement of ability to generate profits explains 0.37 (37%) of the variability in financial performance (Y).

Financial Literacy Variable (X1)

1. Statement of basic financial knowledge (X1.1): The effect of basic financial knowledge (X1.1) on financial literacy (X1) is positive and strong, as indicated by the beta coefficient = 0.82, $p < 0.001$. The basic financial knowledge statement explains 0.66 (66%) of the variability in financial literacy (X1)
2. Statement of savings and loans (X1.2): The effect of savings and loans (X1.2) on financial literacy (X1) is positive and strong, as indicated by the beta coefficient = 0.87, $p < 0.001$. The savings and loans statement explains 0.73 (73%) of the variability in financial literacy (X1).
3. Insurance statement (X1.3): The effect of insurance (X1.3) on financial literacy (X1) is positive and strong, as indicated by the beta coefficient = 0.88, $p < 0.001$. This statement explains 71% of the variability in financial literacy (X1).

- Investment statement (X1.4): The effect of investment (X1.4) on financial performance (X1) is positive and positive and strong, as indicated by the beta coefficient = 0.88, $p < 0.001$. This investment statement explains 0.77 (77%) of the variability in financial literacy (X1)

Financial Technology Variable (X2)

- Statement of efficiency of use (X2.1): The effect of efficiency of use (X2.1) on financial technology (X2) is positive but weak, as indicated by the beta coefficient = 0.69, $p < 0.001$. The statement of efficiency of use (X2.1) explains 0.44 (44%) of financial technology variability (X2).
- Statement of smooth use (X2.2): The influence of smooth use (X2.2) on financial technology (X2) is very strong and significant, as shown by the beta coefficient = 0.96, $p < 0.001$. The statement of fluency in use explains 0.93 (93%) of financial technology variability (X2).
- Statement of the safety of use (X2.3): Influence The relationship between X2.3 and X2 is very strong and significant (beta coefficient = 1.01, $p < 0.001$). The safety of use statement explains 0.93 (93%) of financial technology variability (X2).
- Statement of payment system reliability (X2.4): The influence of payment system reliability (X2.4) on financial technology (X2) is positive but weak, as indicated by beta coefficient = 0.70, $p < 0.001$. The statement of payment system reliability explains 0.47 (47%) of financial technology variability (X2).

The research results above show

The variables in the model show a positive and significant relationship with other variables in the model. Some variables have different strengths of influence, and some variability variables have quite high R^2 , indicating that these variables explain most of the variability of the target variable - Statements X2.2 and X2.3 have the highest R^2 , which means they are very good at explaining the variability of financial variables technology. In contrast, Y1.5 has the lowest R^2 , indicating that this variable only explains a small part of the variability of the financial performance variable. These results provide valuable insight into the influence between variables in the model so that they can be used for further interpretation and decision-making.

Structural Model Testing

$$Z = 0.31X1 + 0.31X2, \text{ Errorvar} = 0.71, R^2 = 0.29$$

$$Y = 0.41Z, \text{ Errorvar} = 0.83, R^2 = 0.17$$

Table. 3 Summary of Regression

Dependent variable	Independent Variable		Information
Financial Inclusion (Z)	Financial literacy (X1)	($p < 0.05$)	Significant
	Financial technology (X2)	($p < 0.05$)	Significant
Financial Performance (Y)	Financial Literacy (X1)	($p < 0.05$)	Significant
	Financial Technology (X2)	($p < 0.05$)	Significant
	Financial Inclusion (Z)	($p < 0.05$)	Significant

Source: Researcher processed data (2024)

In the structural model in this research, there is an influence between the financial inclusion variable (Z), the financial literacy variable (X1), and the financial technology variable (X2), as well as the influence between the financial inclusion variable (Z) and the financial performance variable (Y). The following is a discussion of the influence between the variables of the structural model

- The influence of financial literacy variables on financial inclusion
The influence of the financial literacy variable on financial inclusion shows a coefficient of 0.31 or 31%. This shows that the financial inclusion variable (Z) is influenced by the financial literacy variable by 31%. These results are in line with the research results of Candraningsih et al. (2023),
- The influence of financial technology variables on financial inclusion
The influence of the financial technology variable on financial inclusion shows a coefficient of 0.31 or 31%. This shows that the financial inclusion variable (Z) is influenced by the financial technology variable by 31%. These results are in line with the research results of Candraningsih et al. (2023)

Coefficient of determination (R^2)

- The coefficient of determination of 0.29 indicates that 29% of the variability in the financial inclusion variable (Z) can be explained by the variability in the financial literacy variable (X1) and the financial technology variable (X2), a contribution of 29% can be categorized as low. The financial inclusion variable (Z) has an error variance of 0.71, which shows that 71% of the variability cannot be explained by the financial literacy (X1) and financial technology (X2) variables. The remaining 71% is explained by other variables not examined in this study.

2. The coefficient of determination of 0.17 indicates that 17% of the variability in the financial performance variable (Y) can be explained by the variability in the financial inclusion variable (Z); a contribution of 17% can be categorized as low. The financial performance variable (Y) has an error variance of 0.83, which shows that the amount of variability, namely 83%, cannot be explained by the financial inclusion variable. The remaining 83% is explained by other variables not examined in this study.

The overall model has a fairly strong level of significance ($p < 0.05$), indicating that the influence between the variables in the model is statistically significant. The coefficient of determination (R^2) for financial inclusion (Z) is 0.29, and financial performance (Y) is 0.17. This figure shows that the model is able to explain a small part of the variability in Z and Y. This shows that there are other factors that influence Z and Y which have not been included in the model. Thus, the results of this SEM analysis provide an initial understanding of the influence between variables in the model, although there is room for improvements and updates to the model or adjustments that might increase the model's ability to explain the data.

This structural model shows that the latent variable Z is influenced by latent variables X1 and. This model only provides an overview of the relationship between these variables, and further research needs to be done to understand the relationship in more depth.

D) Total influence and direct tidal influence

The results of data processing show the total influence and indirect influence of the independent variable on the dependent variable, as well as the total influence on the dependent variable:

1. The total influence of independent variables on the dependent variable:
 - a. On the financial inclusion variable (Z), the total influence of the independent variables, financial literacy (X1) and financial technology (X2) are 0.31 each, with standard errors of 0.26 and 0.24, respectively.
 - b. On the financial performance variable (Y), the total influence of the independent variables, financial literacy (X1) and financial technology (X2), is 0.13 each, with a standard error of 0.05 each. These results are in line with the results of Togun's research et al. (2023), Saskia et al. (2022)
2. Indirect influence of independent variables and dependent variables:
 - a. There is no indirect influence between the independent variables on the dependent variable financial inclusion (Z). This shows that the influence is direct from the independent variable to the dependent variable financial inclusion (Z) is the total effect.
 - b. On the financial performance variable (Y), the indirect effect of the independent variable through financial inclusion (Z) is 0.13 each, with a standard error of 0.05 each.
3. The total influence of the dependent variable on itself:
 - a. There is no total influence that occurs in financial inclusion on financial inclusion (Z). This shows that there is no direct or indirect influence on financial inclusion (Z) itself
 - b. On the financial performance variable (Y), the total effect of financial inclusion (Z) is 0.41, with a standard error of 0.28.

The results of the data processing above provide an overview of how the independent variable contributes to the dependent variable, both directly and indirectly, as well as how the dependent variable influences itself.

VI. CONCLUSIONS AND IMPLICATION

A) Conclusion

Based on the results of the research analysis and discussion of this research, it can be concluded that:

1. Financial Literacy has a direct, positive and significant effect on financial inclusion. Hypothesis one, which states that financial literacy has a significant effect on financial inclusion, is accepted. Therefore, a literacy program that is carried out in a structured and appropriate manner will have an impact on the understanding of people of productive age, especially MSMEs, to gain effective access to credit, savings, loans and insurance services from formal banking institutions, which will certainly provide a strong push for the development of financial inclusion.
2. Financial Technology has a positive and significant influence on financial inclusion. The second hypothesis, which states that financial technology has a significant effect on financial inclusion, is accepted. Therefore, regularly conveying an understanding of the benefits of financial technology according to user needs, of course, helps accelerate the spread of financial technology, thus encouraging better financial inclusion.
3. The performance of finances is positively and significantly impacted by financial literacy. Approved is the third hypothesis, which claims that financial performance is significantly impacted by financial literacy. Therefore, regularity in conveying financial literacy in accordance with user needs certainly helps accelerate improvements in financial performance and financial intelligence for the MSME sector, thus encouraging the strengthening of financial performance

for the better.

4. Financial Technology direct, positive and significant effect on financial performance. It is agreed upon that financial technology significantly affects financial performance, according to the fourth hypothesis. Therefore, the role of financial technology which provides open space for an active role in disseminating information in accordance with community needs will certainly provide more adequate access to knowledge and financial services, so that strengthening the financial performance of MSMEs will be better.
5. There is a clear, substantial, and positive correlation between financial performance and financial inclusion. Accepted is the fifth hypothesis, which claims that financial performance is significantly impacted by financial inclusion. Financial inclusion will undoubtedly improve the financial performance of MSMEs since it is intended to make services easily accessible.

B) Implications

The consequences of the research findings can be expressed as follows, based on the conclusions of the study:

- a. Financial Literacy is a program for disseminating knowledge and information in a structured manner in order to increase public awareness and intelligence in understanding various access services using financial technology. Community groups and the MSME sector can use technology for finance to obtain solutions if this information is used for making informed decisions about access to financial services.
- b. Financial technology refers to the application of innovation that arises from the utilization of information technology platforms created by financial institutions to generate efficient and adaptable services that are not restricted by location or time. The development of a suitable connection with social media could facilitate easy, quick, and efficient access to all financial services.
- c. Access to financial services and products that are practical and reasonably priced that satisfy the needs of the community and its enterprises is known as financial inclusion; in this context, these include financial transactions, payments, savings, credit and coverage that are utilized responsibly. Financial inclusion can be a useful tool for enhancing economic performance if it is handled and applied properly.

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