

The Importance of Financial Literacy in Financial Management in Micro, Small and Medium Enterprises (MSMEs)

Dwyanti¹

¹Economic and Business, Universitas Dinamika, Surabaya, Indonesia

e-mail: dwyanti29@gmail.com¹

* Corresponding Author: E-mail: dwyanti29@gmail.com

ARTICLE INFO

Received: January 30th, 2024

Accepted: May 8th, 2024

Published: July 2nd, 2024

Keywords: Financial Management; Financial Literacy; Micro, Small and Medium Enterprises (MSMEs)

ABSTRACT

This research examines the impact of financial literacy on the financial management of Micro, Small, and Medium Enterprises (MSMEs) by building upon previous studies. A robust level of financial literacy within MSMEs is crucial for enhancing the effectiveness of financial management practices. Literature review indicates that a heightened understanding of fundamental financial concepts empowers MSMEs to make informed financial decisions, contributing to their overall resilience and sustainability. A deeper comprehension of financial management aids MSMEs in identifying financial opportunities and mitigating risks when formulating long-term financial strategies. Collaborative efforts involving various stakeholders, such as government bodies, financial institutions, and non-government organizations, are essential to elevate financial literacy among MSME stakeholders. It is anticipated that this literacy enhancement will positively impact the welfare and sustainability of the MSME sector as a whole, fostering local economic growth.

Introduction

Effective financial management is very important for Micro, Small and Medium Enterprises (MSMEs) to ensure the success and sustainability of their businesses. To achieve good performance, MSME players must know how to manage their company's finances. Financial management is something that is often ignored by MSME players. Their limited accounting knowledge means they cannot manage finances well, which will affect their business performance. [1] Stated in his research that professionalism in financial management will help business actors related to business management starting from budgeting, planning to save business funds and financial basics to achieve business financial goals. In managing a business, good financial management is needed in order to produce good results. If the financial aspect becomes better, the performance of MSMEs will increase [10].

In the process of running a business, a person must also have financial skills and knowledge in order to manage their finances effectively, so financial knowledge is very important for every entrepreneur. The Financial Services Authority (OJK) defines financial literacy as knowledge, skills and beliefs that influence a person's attitudes and

behavior in managing finances to achieve prosperity. A good understanding of financial literacy allows them to manage the financial health of the business effectively and efficiently. Therefore, financial literacy is not only related to reading and writing literacy, but also includes financial literacy which involves financial management and savings strategies [4].

The importance of financial literacy for MSMEs is that everyone is able to make effective considerations and decisions when managing finances [3]. Therefore, this will influence a person's way of thinking about the financial situation and influence the business owner's strategic decisions regarding finances and better management [1].

Based on the National Financial Literacy Survey (SNLIK) conducted by the Financial Services Authority (OJK) in 2019, it was found that the financial literacy index (financial understanding) of the community, including MSMEs, was still low, namely 38.03% [7].



Figure 1. The Financial Literacy Index
Sources: Financial Services Authority (OJK)

This low level of literacy has an impact on the ability of business owners to manage business finances, whose abilities are limited to recording but not recording income and expenses properly [1]. Financial knowledge influences a person's financial management behavior [5]. Therefore, financial literacy has an important impact on the financial management of Micro, Small and Medium Enterprises (MSMEs) which ultimately affects their business performance. Increasing financial literacy and implementing good financial management practices can help MSMEs achieve business growth and sustainability.

Research Methods

The literature review is the main focus of this research, drawing attention to the need for further research to explore strategies that have a positive impact on financial literacy in MSMEs. This analysis will focus on the latest findings and relevant information in the MSME finance and management literature. This study highlights the importance of continuing to develop financial education initiatives tailored to the

specific needs and characteristics of MSMEs. By using a narrative descriptive approach, this research aims to obtain a comprehensive picture or understanding of the condition of financial literacy among MSMEs, support the discovery of effective strategies, and provide recommendations for developing financial education that is more effective and relevant to MSMEs.

Result and Discussion

Financial management is one of the big problems for MSMEs because if MSME financial management does not run well it will hamper performance and access to financing. Financial management is one of the things that is often overlooked by micro business actors, especially regarding the application of correct financial management and accounting principles [8]. This problem arises because of limited knowledge and information about accounting among micro business actors [2]. Then, the educational background of micro business actors also influences their level of understanding of financial and accounting concepts. The big challenge in managing MSME finances lies not only in the low awareness of the importance of this aspect, but also in the limited knowledge and understanding possessed by MSME players. Therefore, educational steps are needed in terms of providing better information regarding financial management.

Previous research shows that high financial literacy will help MSMEs plan business growth strategies and overcome financial challenges. Therefore, increasing the financial literacy of MSME players will have a positive impact on the growth and sustainability of the MSME industry as a whole as well as individual financial well-being [6]. Micro, Small and Medium Enterprises (MSMEs) that use appropriate financial knowledge are more likely to achieve better performance, stable business growth, and have the ability to overcome financial challenges. People who have good financial knowledge can make better financial decisions, including appropriate budget planning, effective risk management, and optimal resource allocation [9].

Even though the positive impact of financial literacy is very large, there are still challenges in increasing financial literacy among MSMEs. Some of the challenges include limited access to quality financial education, lack of financial resources and information [5]. Some MSMEs may have difficulty accessing financial training tailored to their needs, making it difficult for them to develop the financial skills and knowledge to manage their business effectively. Efforts to overcome this challenge include developing financial education initiatives that are more accessible and better suited to the needs of MSMEs. In addition, support from the government, financial institutions, training institutions and other parties is needed to ensure an increase in the financial literacy of small, medium and micro businesses as a whole and make a positive contribution to economic growth and sustainable development of all MSME players.

The importance of the role of government, financial institutions, non-profit organizations, educational institutions, and other stakeholders in enhancing financial literacy for Micro, Small, and Medium Enterprises (MSMEs) cannot be overlooked, considering the crucial role MSMEs play in the economic growth of a country. Specific and targeted financial education initiatives for MSMEs are a key step in improving their

understanding of financial aspects, including fund management, financial planning, and financial risk management [2].

The government plays a strategic role in formulating policies that support the development of financial literacy for MSMEs. Through smart and inclusive policies, the government can create an environment conducive to the implementation of more in-depth financial education programs. This may involve developing specialized curricula for financial training for MSMEs, providing high-quality human resources to deliver financial literacy content, and creating incentives for active participation in such programs [6]. Policy measures are not limited to educational aspects but also involve financial support. The government can provide fiscal incentives or subsidies to actively participating MSMEs in financial literacy programs, thus providing economic encouragement for those investing in increasing financial knowledge. Additionally, policies supporting MSMEs' access to affordable loans can be a crucial key in encouraging their participation in financial literacy programs.

Financial institutions, as strategic partners of the government, can actively participate in efforts to enhance financial literacy for MSMEs. They can provide financial resources to support the implementation of financial education programs. Moreover, financial institutions can grant access to MSMEs for financial consultations, business planning, and a better understanding of various financial instruments that can support their business growth. Non-profit organizations also play a crucial role in bridging the financial literacy gap for MSMEs. With a focus on social and educational objectives, non-profit organizations can organize inclusive financial literacy programs accessible to MSMEs from various sectors and skill levels.

In addition to the government, financial institutions, and non-profit organizations, educational institutions also have a responsibility to create relevant curricula supporting the development of financial literacy for MSMEs. This may involve integrating financial literacy content into formal and non-formal education curricula, ensuring that individuals involved in MSMEs acquire adequate knowledge to manage their finances wisely. With strong collaboration among the government, financial institutions, non-profit organizations, educational institutions, and other stakeholders, an ecosystem supporting the holistic improvement of financial literacy for MSMEs can be created. This collective effort will not only assist MSMEs in managing their finances more effectively but also significantly contribute to overall economic growth and sustainable development.

Non-profit institutions can help expand MSMEs' financial knowledge and skills by organizing several activities such as training, workshops or providing financial literacy materials. Educational institutions also have the responsibility to develop curricula that integrate financial literacy into both formal and non-formal education levels. Financial education included in the curriculum can equip future generations of MSMEs with a stronger knowledge base. Through cooperation and coordination of all parties, a financial education ecosystem can be created to support and encourage increased financial literacy for Micro, Small and Medium Enterprises. In this way, MSMEs will be better able to manage their finances effectively, contribute to economic growth, and achieve better business sustainability.

Conclusion

Financial literacy is very important for Micro, Small and Medium Enterprises (MSMEs) to manage their finances well. Financial literacy not only provides a knowledge base, but also helps MSMEs make better financial decisions, becomes the basis for more accurate budget planning, better risk management, and finding profitable investment opportunities. In this case, it is very important for all parties to work together, including the government, financial institutions, non-profit organizations, and educational institutions, to increase financial literacy among MSMEs.

Good financial literacy has a very important role in effective financial management in Micro, Small and Medium Enterprises (MSMEs). The knowledge gained regarding basic financial concepts helps MSMEs make better financial decisions, becoming the basis for more accurate budget planning, more efficient risk management, and more optimal allocation of financial resources. Financial literacy not only provides a knowledge base, but also increases the ability of MSME players to interpret financial information, identify profitable investment opportunities, and plan long-term financial strategies. In this context, joint efforts from various parties, including the government, financial institutions, non-profit organizations and educational institutions, are a must to increase the level of financial literacy among MSMEs.

Specifically for MSMEs, financial literacy training and programs can help them understand financial aspects that are relevant to their business. By learning more about finance, it is hoped that they can make smarter financial decisions, increase their competitiveness, and support the growth and sustainability of the MSME sector as a whole. As financial literacy among MSMEs increases, it is hoped that the growth and sustainability of the sector will increase overall.

References

- [1] Anggraeni, Birawani Dewi. (2015). Pengaruh Tingkat Literasi Keuangan Pemilik Usaha Terhadap Pengelolaan Keuangan. *Jurnal Vokasi Indonesia*, Vol.3, No 1.
- [2] Arianti, B.F. and Azzahra, K. (2020) 'Faktor-Faktor Yang Mempengaruhi Literasi Keuangan: Studi Kasus UMKM Kota Tangerang Selatan', *Jurnal Manajemen Dan Keuangan*, 9(2), pp. 156–171.
- [3] Bhushan, P., & Medury, Y. (2013). Financial Literacy and Its Determinants. *International Journal of Engineering, Business and Enterprise Application (IJEBEA)*, Vol. 4, No. 1, pp. 155–160.
- [4] Dahrani, D., Saragih, F. and Ritonga, P. (2022) 'Model pengelolaan keuangan berbasis literasi keuangan dan inklusi keuangan: Studi pada UMKM di Kota Binjai', *Owner: Riset dan Jurnal Akuntansi*, 6(2), pp. 1509–1518.
- [5] Djou, L.G. (2019) 'Analisis pengaruh literasi keuangan, sikap keuangan dan kepribadian terhadap perilaku pengelolaan keuangan UMKM di Kabupaten Ende', *Jurnal Magisma*, 7(2), pp. 1–12.
- [5] Ida, & Dwinta, C. Y. (2010). Pengaruh Locus of Control, Financial Knowledge, Income Terhadap Financial Management Behavior. *Jurnal Bisnis dan Akuntansi*, 131144.

- [6] Nurjanah, R., Surhayani, S. and Asiah, N. (2022) 'Faktor Demografi, Literasi Keuangan, Sikap Keuangan Terhadap Perilaku Pengelolaan Keuangan Pada Umkm Di Kabupaten Bekasi', *Jurnal Akuntansi Bisnis Pelita Bangsa*, 7(01), pp. 1–16.
- [7] Otoritas Jasa Keuangan (2019). Siaran Pers Survei OJK 2019: Indeks Literasi dan Inklusi Keuangan Meningkat. *SP 58/DHMS/OJK/XI/2019*.
- [8] Risnaningsih. (2017). Pengelolaan Keuangan Usaha Mikro dengan Economic Entity Concept. *Jurnal Analisa Akuntansi dan Perpajakan*, Vol 1 (1), 41-50.
- [9] Supriyanto, A. *et al.* (2023) 'Kesuksesan Muslimah Pelaku UMKM: Peran Dimensi Entrepreneurial Orientation', *BISNIS: Jurnal Bisnis dan Manajemen Islam*, 10(2), pp. 267–286.
- [10] Wahyudiati, D., & Isroah. (2018). Pengaruh Aspek Keuangan Dan Kompetensi Sumber Daya Manusia (SDM) Terhadap Kinerja Usaha Mikro Kecil Dan Menengah (UMKM) Di Desa Kasongan. *Prof ita: Kajian Ilmu Akuntansi*, 6(2), 1–11.