

# How can MSME Practitioners Enhance the Performance of their Businesses?

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**Abstract.** This research aims to identify the factors that can enhance the performance of Micro, Small, and Medium Enterprises (MSMEs). This research investigates the influence of financial literacy, the ability to prepare financial reports, and the utilization of information technology and social media on the performance of MSMEs. The study's population comprises MSME practitioners in the Kapanewon Cangkringan region. The sampling technique employed is purposive sampling, resulting in a sample size of 100 MSME practitioners. Data for the research were acquired through the direct distribution of questionnaires to MSME practitioners in Kapanewon Cangkringan. The research findings demonstrate that financial literacy, the ability to prepare financial reports, the use of information technology, and social media usage positively and significantly impact the performance of MSMEs. The distinction between the current study and prior research resides in the research subject and the inclusion of an additional independent variable, namely the utilization of social media. This research contributes to the existing body of knowledge by empirically establishing the significant influence of financial literacy, financial reporting proficiency, information technology utilization, and social media engagement on the performance of MSMEs

**Keywords:** financial literacy, financial reports, information technology, social media, performance of MSMEs

## 1 Introduction

Indonesia is one of the eleven countries members of the Association of Southeast Asian Nations (ASEAN). At the end of 2015, Indonesia faced the establishment of the ASEAN Economic Community (AEC), which facilitated economic competition in Southeast Asia with predetermined regulations. This posed a challenge for Indonesian society, as it confronted intensified competition and limited employment opportunities. One type of facility or infrastructure that can address these challenges is through Micro, Small, and Medium Enterprises (MSMEs). The existence of MSMEs can advance the economy, generate employment, reduce poverty, enhance the competitiveness of the national economy, and contribute to continuous development [1]. The Ministry of Finance of the Republic of Indonesia asserts that the MSMEs sector is one of the critical pillars of Indonesia's economy. This is substantiated by its substantial contribution to the Gross Domestic Product (GDP),

amounting to 62.57%, and its capacity to absorb a significant portion of private sector employment, reaching 96.99%.

The growth of MSMEs in Indonesia is considered substantial. The number of MSMEs continues to rise, underscoring the significance of MSMEs in enhancing community economic development and positioning them as essential economic activities. This highlights the importance of promoting and improving MSME's performance to create products of high quality and quantity. Located in the Special Region of Yogyakarta (DIY), Sleman Regency hosts 114,609 MSMEs. Among them, 2,270 MSMEs are situated in the Cangkringan Subdistrict, comprising 2,267 micro- enterprises, two small enterprises, and one medium-sized enterprise. The Cangkringan Subdistrict is categorized as an eco-tourism area, and the development of MSMEs plays a crucial role in enhancing its attractiveness and adding value to the region, thereby fostering economic growth. In the context of developing the potential of MSMEs in the Cangkringan Subdistrict, it is imperative to comprehend the factors influencing the performance of these enterprises.

According to [2], financial literacy is positively influenced by business performance and sustainability. Financial literacy denotes an individual's comprehension and knowledge of finance. Etty Kumolowati, as an expert staff member of the Governor of the Special Region of Yogyakarta in social, cultural, and community affairs, has conveyed that efforts to enhance financial literacy in the region remain a current challenge [3]. The lack of financial literacy adversely affects an individual's financial condition and may lead to suboptimal decision-making. Therefore, it is crucial for the community, especially business practitioners, to have a thorough understanding of financial planning to facilitate informed decision-making for the advancement of their enterprises.

Furthermore, a factor anticipated to influence the performance of MSMEs is the ability to prepare financial reports. Financial reports are essential for assisting business practitioners in obtaining crucial information contained within these reports. One informal characteristic prevalent among MSMEs in the Special Region of Yogyakarta is the absence of financial record-keeping [4]. Challenges in preparing financial reports can impede the enhancement of MSME performance [1]. Business practitioners may remain uninformed about their progress without preparing financial reports. Therefore, preparing financial reports is crucial for all MSME practitioners.

The study conducted by Suryantini and Sulindwati (2020) posits that information technology positively influences the performance of MSMEs. The current role of technology is crucial for expediting quality improvement and expanding market reach. Technological advancements present opportunities for MSMEs to access broader markets. Furthermore, MSMEs need to capitalize on digital platforms such as social media. Research by Aziz et al (2018) concludes that by employing social media, MSMEs can enhance their capabilities in building a digital persona, boosting sales, and maintaining customer relationships. The utilization of social media needs to be improved to disseminate information regarding the growth, activities, and products of MSMEs in the Cangkringan Subdistrict.

This research investigates the influence of financial literacy, the ability to prepare financial reports, and the utilization of information technology and social media on the performance of MSMEs. This research contributes to the existing body of knowledge by empirically establishing the significant influence of financial literacy, financial reporting proficiency,

information technology utilization, and social media engagement on the performance of MSMEs.

## **2 Literature Review and Hypothesis**

### **2.1 The Performance of MSMEs**

The Central Bureau of Statistics defines (MSMEs) as economic units engaged in the production of goods or services for future sale through the management conducted by an individual. According to Law No. 20 of 2008 Regarding Micro, Small, and Medium Enterprises, MSMEs are defined as productive assets owned by individuals or individual business entities, as independent economic enterprises with productive activities. Mangkunegara (2000) defines performance as the outcome of tasks by individuals or groups characterized by quality and quantity. Consequently, it can be inferred that the performance of MSMEs is the attainment of quality and quantity by MSMEs during a specific period resulting from their operational activities.

### **2.2 Financial Literacy**

The Financial Services Authority, as stipulated in regulation No. 76/PJOK.07/2016 defines financial literacy as the knowledge, skills, and confidence influenced by the level of financial quality managed and decisions made from an individual's attitudes and behaviors. The National Survey of Financial Literacy and Inclusion conducted by the Financial Services Authority (Otoritas Jasa Keuangan - OJK) reveals that individuals are at risk of fraud and face difficulties in determining suitable investment or savings products due to inadequate levels of financial literacy. Financial literacy, as categorized by the Financial Services Authority, comprises four levels: well- literate, sufficiently literate, less literate, and not literate.

Financial literacy is the knowledge of managing and designing finances. Financial literacy empowers and educates business practitioners to comprehensively understand finances related to their business. Business practitioners with financial literacy can evaluate past financial performance, enabling them to make informed decisions for future finances. Therefore, MSME practitioners with good financial skills and knowledge can manage business finances, plan budget usage, organize loans and savings, and determine the appropriate financial institutions, services, and products for their businesses. This allows the decisions made to enhance the performance of their businesses. According to the research conducted by Sanistasya et al. (2018), there is a positive influence between financial literacy and MSMEs performance. This assertion is supported by the findings of Ilarrahmah (2021) and Rizal et al. (2022) Rizal et al. (2022), who found a positive influence between financial literacy and MSMEs performance. Thus, the first hypothesis can be formulated as follows:

H1: Financial literacy has a positive influence on MSMEs' performance

### **2.3 The Ability to Prepare Financial Reports**

Financial statements are the outcome of recording operational business activities over a specific period to provide information as a guide for business decision-making [10]. Financial statements are pivotal in achieving success in Micro, Small, and Medium Enterprises (MSMEs). Emphasis on intellectual capabilities is placed on the ability to prepare financial statements. Intellectual ability can demonstrate an individual's intelligence, enabling them to solve problems efficiently, possess rapidly developing skills, and effectively complete tasks.

To manage a business effectively, MSME practitioners must master preparing financial statements. Guided by the standards for financial statement preparation, performance can be enhanced as the resulting statements are of higher quality. MSME practitioners who can prepare good financial statements will be able to record income or expenses, understand profits, and find solutions when losses occur. Thus, the information in these financial statements can support MSME practitioners in achieving good business performance. According to Wahid (2017) research findings, the ability to prepare financial statements influences operational performance. Supported by the studies of Rostikawati & Pirmaningsih (2019) and Ilarrahmah (2021) with similar conclusions, it is evident that financial statements significantly affect MSMEs' performance. Therefore, the second hypothesis can be formulated as follows:

H2: The Ability to Prepare Financial Statements positively influences MSMEs' Performance.

#### **2.4 The Utilization of Information Technology**

In the central module of education and training at the Central Bureau of Statistics (Badan Pusat Statistik - BPS), information technology is defined as all technologies designed to assist humans in storing, transforming, communicating, disseminating, and generating information, such as computers and mobile phones. Jogiyanto (2009) in his work, he explains that information technology can aid business practitioners in realizing efficient and effective business processes, enhancing employee productivity, and yielding high-quality products. Presently, the use of information technology in society is not something to be prohibited. Business practitioners are obligated to have an understanding of information technology to achieve more effective and efficient business activities.

MSME practitioners must currently leverage information technology to run their businesses. Without effective management in their operations, these entrepreneurs will lag in using information technology. Therefore, MSME practitioners who have implemented information technology find it easier to communicate and obtain information for business purposes, enabling them to achieve efficient and effective business activities and improve business performance. According to the research conducted by Suryantini and Sulindawati (2020), it was concluded that utilizing information technology positively influences the performance of MSMEs. This aligns with the findings of Ilarrahmah (2021) and Fatimah and Azlina (2021), stating that information technology impacts the performance of MSMEs. Thus, the third hypothesis can be formulated as follows:

H3: Information Technology has a positive influence on MSMEs' performance.

#### **2.5 Social Media**

Social media is a platform for communication, social activities, and sharing information through photos, videos, and written content. Social media is an effective communication tool for Micro, Small, and Medium Enterprises (MSMEs), enabling them to reach a broader market thereby increasing consumer reach and sales. In his research, Kevin (2020) elucidates that the utilization of social media represents an update for reaching customers, facilitating the dissemination of information, and fostering positive relationships with various stakeholders, ultimately enhancing business performance and competitiveness.

Social media is an effective communication tool for MSMEs, enabling them to reach a broader market and increase consumers and sales. Business practitioners can introduce products and interact with consumers through social media. Therefore, MSME practitioners using social media in their businesses find it easier to reach consumers and establish good relationships with them, leading to customer loyalty, and sales activities can be conducted anywhere and anytime, ultimately enhancing business performance. According to the research by [15] Rizal et al. (2022), there is a positive influence between the use of social media and MSME performance. This is supported by studies conducted by Kevin (2020) and Yohani (2020), concluding that social media positively impacts MSME performance. Thus, the fourth hypothesis can be formulated as follows:

H4: Social media has a positive influence on MSMEs' performance

### 3. Methodology

The population of this study consists of Micro, Small, and Medium Enterprises (MSME) practitioners in Kapanewon Cangkringan, totaling 2.270. The sampling technique employed is purposive sampling, with the established criterion being MSMEs utilizing information technology in their business operations. The minimum total is calculated from the population using the Slovin formula

$$\frac{2.270}{1 + (2.270 \times 0,01)} = 95,78 \text{ rounded to 100 samples.}$$

Therefore, the sample size utilized is 100 MSME practitioners. Data is collected through a questionnaire adapted from previous research, employing a Likert scale as the measurement model (Table 1).

**Table 1.** Indicator of Variable

| Variable                                  | Indicator  | Reference             |
|---|--|-----------------------|
| The Performance of MSMEs                  | 1) Business growth, 2) Total revenue, 3) Total orders, and 4) Business cash position.  | (Yanti, 2019)         |
| Financial Literacy                        | 1) Knowledge, 2) Behavior, and 3) Attitude.  | (Wulandari, 2019)     |
| The Ability to Prepare Financial Reports  | 1) Numerical and recording abilities, 2) Perceptual speed, 3) Verbal comprehension, 4) Deductive and inductive reasoning, 5) Spatial visualization, and 6) Memory. | (Whetyningtyas, 2016) |
| The Utilization of Information Technology | 1) Knowledge, 2) Skills, and 3) Attitude.  | (Matandra, 2018)      |

Social Media 1) Attracting new customers, 2) Maintaining good relationships with customers, 3) Communicating the brand online, 4) Receiving feedback, 5) Building brand awareness, and 6) Responding to customer questions and requests. (Odoom, 2016)

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## Findings and Discussion

### The Influence of Financial Literacy on the Performance of MSMEs

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## 4. Findings and Discussion

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**Table 2.** Descriptive Statistic Result

| Variable           | Category           | Frequency | Percentage |
|--------------------|--------------------|-----------|------------|
| Sex                | Pria               | 39        | 39%        |
|                    | Wanita             | 61        | 61%        |
| Age                | 15-24              | 22        | 22%        |
|                    | 25-34              | 21        | 21%        |
|                    | 35-44              | 27        | 27%        |
|                    | 45-54              | 25        | 25%        |
|                    | >55                | 5         | 5%         |
| Business Age       | <1 tahun           | 1         | 1%         |
|                    | 1-5 tahun          | 62        | 62%        |
|                    | >5 tahun           | 37        | 37%        |
| Level of Education | Elementary         | 1         | 1%         |
|                    | Junior High School | 2         | 2%         |
|                    | Senior High School | 69        | 69%        |
|                    | Bachelor           | 26        | 26%        |
|                    | Master             | 2         | 2%         |

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The widely used social media platforms include WhatsApp, Instagram, and Facebook.

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**Table 3. Multiple Regression Analysis**

| Model        | Unstandardized Coefficients |  | Significance |            |
|--------------|-----------------------------|--|--------------|------------|
|              | B                           |  | Two-Tailed   | One-Tailed |
| (Constant) Y | -0,358                      |  |              |            |
| X1           | 0,183                       |  | 0,011        | 0,005      |

|                   |          |       |       |
|-------------------|----------|-------|-------|
| X2                | 0,187    | 0,045 | 0,022 |
| X3                | 0,447    | 0,000 | 0,000 |
| X4                | 0,276    | 0,004 | 0,002 |
| F statistic       | = 27,098 |       |       |
| Significance      | = 0,000  |       |       |
| Adjusted R Square | = 0,513  |       |       |

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Based on the t-test (partial test) results on the financial literacy variable, the coefficient value is 0,183, indicating a positive relationship. The calculated t-value is greater than the critical t-value ( $2,593 > 1,984$ ), and the significance value is less than 0,05 ( $0,005 < 0,05$ ). Thus, H1 is accepted, concluding that the financial literacy variable positively and significantly impacts the performance of MSMEs among MSME practitioners in the Cangkringan Subdistrict.

MSME practitioners with good financial skills and knowledge can manage business finances and budget utilization, handle loans and savings, and select the appropriate financial institutions and products for their businesses. Consequently, the decisions made contribute to the enhancement of business performance. This is supported by research conducted by Sanistasya et al. (2018), Ilarrahmah (2021), and Rizal et al. (2022), stating that financial literacy has a positive and significant influence on the performance of MSMEs. Therefore, based on this research and previous studies, it can be concluded that the improvement in the performance of MSMEs may be attributed to the increased financial literacy possessed by MSME practitioners.

#### **The Influence of the Ability to Prepare Financial Reports on the Performance of MSMEs**

Based on the t-test (partial test) results on the variable of the ability to prepare financial reports, the coefficient value is 0,187, indicating a positive relationship. The calculated t-value is greater than the critical t-value ( $2,033 > 1,984$ ), and the significance value is less than 0,05 ( $0,022$

$< 0,05$ ). Thus, H2 is accepted, leading to the conclusion that the variable of the ability to prepare financial reports has a positive and significant impact on the performance of MSMEs among MSME practitioners in the Cangkringan Subdistrict.

MSME practitioners who can prepare financial reports effectively can record income or expenses, understand profits, and have solutions in case of losses. Consequently, the information in the financial reports can support MSME practitioners in achieving good business performance. This is supported by research conducted by Wahid (2017), Rostikawati and Pirmaningsih (2019), and Ilarrahmah (2021), which states that the ability to prepare financial reports positively and significantly influences the performance of MSMEs. Therefore, based on this research and previous studies, it can be concluded that the ability to prepare financial reports contributes to the performance of MSMEs.

#### **The Influence of Information Technology Usage on the Performance of MSMEs**

Based on the t-test (partial test) results on the information technology variable, the coefficient value is 0,447, indicating a positive relationship. The calculated t-value is greater than the critical t-value ( $4,865 > 1,984$ ), and the significance value is less than 0,05 ( $0,000 < 0,05$ ).

Thus, H3 is accepted, leading to the conclusion that the information technology variable positively and significantly impacts the performance of MSMEs among MSME practitioners in the Cangkringan Subdistrict.

MSME practitioners who have implemented information technology find it easier to communicate and obtain information for business purposes, enabling them to realize effective and efficient business activities and improve business performance. This is supported by research conducted by Suryantini and Sulindawati (2020), Ilarrahmah (2021), and Fatimah and Azlina (2021), stating that the use of information technology positively and significantly influences the performance of MSMEs. Therefore, based on this research and previous studies, it can be concluded that MSME practitioners' increased performance may be attributed to using information technology in their business operations.

#### **The Influence of Social Media Usage on the Performance of MSMEs**

Based on the results of the t-test (partial test) on the variable of social media usage, the coefficient value is 0,276, indicating a positive relationship. The calculated t-value is greater than the critical t-value ( $2,914 > 1,984$ ), and the significance value is less than 0,05 ( $0,004 < 0,05$ ). Thus, H4 is accepted, leading to the conclusion that social media usage positively and significantly impacts the performance of MSMEs among MSME practitioners in the Cangkringan Subdistrict.

MSME practitioners utilizing social media in their businesses find reaching consumers easier, establishing good relationships with consumers to foster loyalty, and conducting sales activities anytime and anywhere, enhancing business performance. This is supported by research conducted by Rizal et al. (2022), Kevin (2020), and Yohani (2020), which states that social media usage positively and significantly influences the performance of MSMEs. Therefore, based on this research and previous studies, it can be concluded that MSME practitioners' increased performance may be attributed to the utilization of social media in their business operations.

## **6. Conclusion**

Based on the research findings, it can be concluded that financial literacy, the ability to prepare financial statements, and the use of information technology and social media positively and significantly impact the performance of MSMEs. These results indicate that MSME entrepreneurs need to know about finance, have the ability to prepare financial statements and utilize information technology and social media to enhance the performance of UMKM. This research contributes to the existing body of knowledge by empirically establishing the significant influence of financial literacy, financial reporting proficiency, information technology utilization, and social media engagement on the performance of MSMEs. The findings underscore the importance of enhancing these factors to foster communities' economic development and well-being. Furthermore, the study extends the understanding of the dynamics between financial literacy, technological adoption, and social media utilization in the context of MSME performance, providing valuable insights for policymakers, practitioners, and researchers alike.



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