

How Company Size, Learning Process and Financial Literacy Support SME's Sustainability

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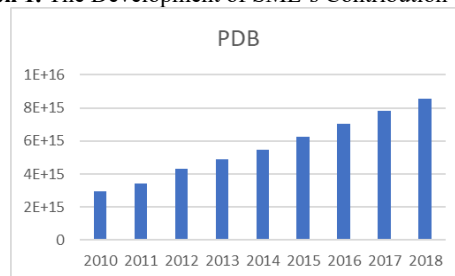
Abstract. The Small and Medium Enterprises sector play an important role in contributing to the economic growth of a country. Therefore, It is a big challenge for SMEs to grow in the business complexity the future. SMEs must improve their financial performance in the long term to keep them going concern in their business. One of the strategies is to apply management practices which is carried out in business processes. SMEs in Indonesia has to improve their business process to enter the international market. One of the issue in the SME's business is Sustainability. The purpose of this study is to determine and describe if the size of the company's learning process and financial literacy in encouraging the sustainability of SMEs. This type of research is included in quantitative research using research instruments in the form of questionnaires. This research was conducted on 168 SMEs in Cimahi City (West Java, Indonesia) as the population and the sampling technique used random sampling with a total sample of 63 SMEs. The study found that the size of the company and the learning process does not affect in encouraging the sustainability of SMEs. Financial literacy is affect in encouraging the sustainability of SMEs. Meanwhile, simultaneously the size of the company, the learning process, and financial literacy affect the sustainability of SME's.

Keywords: Company Size, Learning Process, Financial Literacy, Sustainability

1 Introduction

The SME's sector has greatly contributed to the Indonesian economy and Gross Domestic Product (GDP). SME's had contributed IDR 8,573.9 trillion to Indonesia's GDP in 2018 or reached 57.8% of the total state revenue amounted to IDR 14,838.3 trillion, as presented in Graph 1 [1].

Graph 1. The Development of SME's Contribution to GDP



(Ministry of cooperatives, databox [2])

2020 was a remarkably difficult year for the SME's sector due to covid-19 which has led to a major disruption to the business sector during the pandemic. A total of 96% respondents stated that there was a decline in turnover. As many as 27% of respondents experienced a decline in turnover of more than 60%. Moreover, 29% of respondents stated that turnover had declined by approximately 40-60% [3]. In the midst of difficult times, the SME's sector is required to regulate operational strategies, including in terms of sustainability.

To compete in the trade chain, one of the important issues in the global value chain that should be carried out by the SME's sector is to involve aspects of sustainability in operations and products produced [4]. A number of SME's businesses were found to have not implemented the concept of sustainability. Support from various parties is urgently needed, especially government policies that may promote the SME's sector to run a successful business with the concept of sustainability.

The company's paradigm has shifted from being initially profit oriented to being sustainability oriented. As natural resources decrease, the United Nations adopted a sustainable development program, which is significantly intended to meet the needs of the present without compromising the ability of future generations to meet their own needs. By carrying out three pillars: 3 P's (Profit, Planet and People), sustainability is considered to have become mandatory in surviving on planet earth [5]. Considering that almost 60% of the economic sector is produced by MSMEs, the sustainable development program must also be focused on that sector.

In Indonesia, the Financial Services Authority (hereinafter referred to as OJK) has required go public companies to make sustainability reports under the regulation: 51/POJK.03/2017. The application of the concept of corporate sustainability is commonly influenced by organizational learning [6]. Companies should continuously provide organizational learning for employees through a training process to follow the development of financial understanding for SME's [7]. For large companies, company size and ownership structure are recognized as driving factors for sustainability [8]. Large companies will be increasingly concerned with sustainability issues. HR knowledge about finance is also considered as one of the factors that enable companies to apply sustainability [9]. Financial literacy may indicate how SME's access financial facilities and estimate the risk [9].

According to Indrayenti and Jenny [10], company size is considered as an identification of the large or small size of a company according to the total assets of an entity. In this research, the size of the company was viewed from the number of assets owned by MSMEs, both current assets and non-current assets.

In-law No. 20 of 2008 Article 1 company size is classified into four types, namely:

- a) Micro business is a business whose capital owner is an individual or entity with a maximum amount of assets owned (excluding land and buildings) of IDR 50 million and sales that occur during one year a maximum of IDR 300 million.
- b) Small business is a productive business that is owned alone without any relationship with other companies such as a company controlled by a business owned (excluding land and buildings) between Rp. 50 million to Rp. 500 million and for one year between Rp. 300 million up to IDR 2.5 billion.
- c) A medium-sized business is a business that is owned by itself without any relationship with other companies such as a company controlled by a business owned between Rp. 10 million and Rp. 10 billion.
- d) Large business is a large business whose capital owners are state, private, joint venture, and foreign with a total net worth and sales exceeding the total assets owned between Rp 10 billion to Rp 50 billion.

Bigger companies will have greater concern for sustainability issues, specifically to gain competitive advantage, mitigate risks, build brands, and be involved in the global supply chain [5]. Meanwhile, small-scale SME's companies have not been significantly involved in sustainability issues and only carry out the program with the aim of surviving in business. The increasingly competitive business world and an environment full of uncertainty also require companies to be able to cope with dynamic changes in the environment for sustainability [11]. Consequently, SME's companies must also find ways to survive in this dynamic situation.

MSME companies are recognized as a sector with a fairly large contribution in a country [12]. Therefore, although the size of SME's companies is relatively smaller, the sustainability program as part of its strategic management is required to be implemented [13].

Company size affects the company's level of understanding on knowledge and practice of sustainability in management. Small companies are likely not to implement complex sustainability programs [14]. Research on company size and its impact on sustainability have been carried out successfully in large companies [15][16].

The larger the size of the company indicates that the manager has good abilities. If SME's managers can maintain and even make MSMEs bigger, Sustainability will be even better.

The learning process is recognized as an activity carried out as an effort to increase the knowledge that has been successfully acquired [17]. The understanding of accounting may be obtained by business owners through education engaged by them, including formal and non-formal education. Through these stages of education, the learning process could be formed automatically.

The understanding of sustainability applied to SME's is considered not an easy issue. Business managers should go through the process at every stage of learning. One of the factors that significantly affect the ability and expertise of business owners is the education engaged by them [18]. The higher level of education will lead to better understanding that is successfully obtained through the learning process, and the activities carried out will always be based on a balance between economic, social and environmental values.

The learning process can pursued through formal education but through non-formal education such as training, workshops, seminars and courses. SME's managers will have sufficient provisions in managing MSMEs so that they support the achievement of company goals. In addition, experience is also very supportive in the learning process. This is because the application of the knowledge gained is not as easy as its application. The obstacles faced in the field will make SME's managers more proficient in managing their business. Thus, the sustainability of MSMEs will be guaranteed [19][8].

The Association of Chartered Certified Accountants [20] formulated that the concept of financial literacy includes knowledges of financial concepts, abilities to understand communication about financial concepts, skills to manage personal/company finances and abilities to make financial decisions in certain situations.

PISA 2012: Financial Literacy Assessment Framework [21] formulated that financial literacy is a fundamental factor for economic growth and financial stability, because human resources in an entity should sincerely understand how to manage a business since its establishment, how to operate and how to sustain a business growth.

This financial literacy includes the knowledge and abilities possessed by capital owners in managing their business in improving their business performance. So, they can survive and compete with other companies. Owners of capital can implement financial literacy by making a business budget for either receipt or use of funds for one year. In addition, the capital owner can also plan the deposit of funds in his investment so that the company can achieve its financial goals [22].

Companies whose human resources understand financial literacy will find it easier to do bookkeeping. The bookkeeping starts from recording transactions until financial reporting in each period [22]. The financial report is one of the communication media between management and stakeholders. Internal and external stakeholders can read the company's financial condition through financial reporting. It will facilitate stakeholders in making decisions. Thus financial literacy can help stakeholders in decision making [19].

An understanding of financial literacy is important for an industry whose finances are very complex. The different capabilities of human resources towards financial literacy are divided into three groups, namely: group one is a low group where the knowledge of financial literacy is less than 60%, group two is a medium group where knowledge about financial literacy is between 60% to 79% and group three is the high group where knowledge of financial literacy is more than 80% [19].

Financial literacy is considered as one of the factors that affect the survival of a business entity. The decision-making ability determines the condition of the SME's itself. Good financial literacy will improve the sustainability of SME's businesses, because business owners are likely to understand how to manage their business. Consequently, the strategy may be decided properly [23]. Therefore, SME's are able to compete and survive [24].

Understanding of financial literacy by SME's managers shows the quality of qualified human resources. SME's managers can carry out bookkeeping in managing their business. This is because MSMEs are not only supported by large capital but must be accompanied by the ability in bookkeeping from recording to financial reporting. Not only for bookkeeping, SME's managers must also understand external factors that can affect the company's economy such as inflation, interest rates, time value of money, exchange rates and so on. This factor is very important because it has an impact on management decisions [9]. With financial literacy understood by SME's managers, it can encourage SME's sustainability.

Sustainability is the fulfillment of the needs of the present without compromising the ability of future generations to meet their own needs [25]. The three pillars in the concept of sustainability consist of Economic, Social and Environmental. This concept asserts that diminishing natural resources will lead to future development not only focusing on economic problems, but also concerning environmental and social issues.

In the company, the concept of sustainability has successfully shifted the company's paradigm from profit oriented to sustainability oriented. Corporate Sustainability are known to add social and environmental targets in addition to economic targets in order to increase value for stakeholders [26]. Therefore, to sustain the growth in the future, companies are required to implement the concept of sustainability. For companies that have been listed on the Indonesia Stock Exchange, the Financial Services Authority (OJK) has issued the regulation: NO. 51/POJK.03/2017 concerning the obligations of financial service institutions, issuers, and public companies to implement sustainable finance and report it in Sustainability Reporting. The sustainability report is a form of corporate responsibility to stakeholders in the commitment of implementing sustainable development in economic, social and environmental terms.

Discussions related to sustainability in the SME's sector began to be discussed several years ago. In 2019, the concept of green MSMEs was successfully raised in Indonesia, which is defined as eco-conscious and eco-friendly MSMEs. Indonesian MSMEs are considered to have enormous potential, but their involvement in global value chains is still relatively low. MSMEs involved in the trade chain in the Southeast Asia region are only 6.3% of the total existing MSMEs, where the issues commonly recognized as important in the global value chain are sustainable production and consumption [4].

The application of sustainability by MSMEs will be more dominant when MSMEs have a broad role. MSMEs cannot be separated from the growth of MSMEs. SMEs that can manage and increase the size of their companies show that they can have good sustainability [19].

MSME sustainability is determined by several factors such as company size, learning process, and financial literacy. The purpose of this study is to find out how the size of the company, the learning process, and financial literacy in encouraging the sustainability of MSMEs. Companies that have a large number of assets will more easily support the improvement of human resource capabilities, one of which is financial literacy. These abilities and experiences have an impact on the breadth of the learning process experienced by SME's managers. Thus, MSMEs that have a lot of assets, the learning process they go through is also good and SME's managers understand financial literacy will simultaneously encourage the sustainability of MSMEs [9][14][16].

Research on sustainability, specifically in Indonesia, still commonly discusses business sustainability without considering environmental and social aspects. Verily, a going concern of a business will continue for a long time while maintaining the supply chain. In comparison with research that has been carried out in several countries, it is stated that SME's remain primarily concerned with the impacts generated by the triple bottom line (economic, social and environmental). Therefore, this research was focused to evaluate the appropriate socialization steps about sustainability to SME's by implementing a triple bottom line based on several issues experienced by SME's in running their business. Referring to the discussion above, researchers aimed to explore more on the issue of SME's that have not significantly applied the concept of sustainability and to identify the affecting factors of SME's that have not implemented the concept of sustainability in Indonesia. Therefore, this research was conducted to determine descriptively the understanding of SME's regarding to the concept of sustainability, to identify whether company size, organizational learning and financial literacy are factors that significantly affect the understanding of SME's about sustainability; and to propose a design model for the sustainability socialization program for SME's. This research was urgently carried out in consideration of SME's in Indonesia which continue to grow and the lack of understanding of SME's on sustainability issues. To compete in the present era, the implementation of sustainability to improve performance and to compete on a global scale is highly required.

2 Method

2.1 Type of Research

This research was classified as a quantitative research. The researchers utilized financial instruments generated from a sample of a population, so that hypothesis testing could be carried out successfully in this research. The instrument in this research consisted of a questionnaire and the type of data used was primary data. Data information were collected based on the results of the distribution of questionnaires, interviews, and analyzes that had been carried out at the research site. This research was an exploratory descriptive research, because it described the learning process, financial literacy and sustainability in MSMEs, specifically in the city of Bandung. In addition, this research was included in exploratory research, because it was still very rarely studied in Indonesia, especially in SME's. Therefore, an in-depth analysis of the problem that has a minimum number of references was required to be conducted, so that the problems raised in this research could be answered efficiently.

2.2 Conceptual and Operational Definitions of Variables

The variables in this research consisted of the dependent variable (learning process and financial literacy) and the independent variable (sustainability). The operational table of this research variables is presented as follows.

Table 1. Operational Definition and Measurement of Variables

No.	Definition	Indicator	Scale
1	Company size is considered as an identification of the large or small size of a company according to the total assets of an entity [10].	Total Assets	Likert
2	Learning process is recognized as an activity carried out as an effort to increase the knowledge that has been successfully acquired [17].	a. Formal education b. Non-formal education c. Formal Knowledge d. Non-formal Knowledge	Likert
3	Financial literacy is the knowledge of a business actor that determines the sustainability of the business [22][9].	a. Financial performance analysis b. Accounting understanding c. Ability to manage finances d. Understanding of loan applications e. Savings guaranteed by the government f. Simple and compound interest g. Calculation of loan interest h. Inflation i. Discount j. Time value of money k. Money Illusion	Likert
4	Sustainability is an economic, environmental, and social related activity conducted by a company [27].	a. Economic b. Social c. Environmental	Likert

(Processed Data)

2.3 Population and Sample

This research was conducted in SME's in the city of Cimahi with the population consisted of 168 SME's. Subsequently, the number of data in this research was determined by using the Slovin formula and the samples were taken by means of random sampling technique.

$$n = \frac{N}{1 + N(e)^2}$$

n = Number of Samples

N = Population

e = The error tolerance limit is assumed to be 10%

$$n = \frac{168}{1 + 168(10\%)^2}$$

$$= 63$$

Based on this calculation result, the number of samples in this research was amounted to 63 SME's.

2.4 Data Analysis Method

The questionnaires that had been collected would be tested initially by using validity and reliability tests. Furthermore, to test the hypothesis, the researchers used the t test and the F test by means of linear regression analysis, which previously had to pass the classical assumption test. This classical assumption test consisted of normality test, multicollinearity test and heteroscedasticity test.

3 Result and Discussion

3.1 Research Result

3.1.1 Validity Test and Reliability Test

This research was conducted by distributing questionnaires and conducting interviews to SME's managers in the city of Cimahi. The next step was to carry out statistical tests to determine the effect and relationship between variables. After that, the researchers conducted an analysis of the research results.

Based on the stages described in the previous section, the validity and reliability of the collected questionnaire results were initially tested. In this section, the statistical results showed that the data collected had passed the validity and reliability tests. Therefore, the data were declared valid and reliable.

3.1.2 Classic Assumption Test

The next stage was to carry out the classical assumption test. This classical assumption test consisted of four tests, including normality test, multicollinearity test, heteroscedasticity test and autocorrelation test. The first test was the normality test with the result of more than 0.05, which indicated that the data were normally distributed. The second test was the multicollinearity test with the result of $VIF \leq 10$, which indicated that the data did not contain any multicollinearity. The third test was heteroscedasticity with the result of $sig \geq 0.05$, which indicated that heteroscedasticity was not detected in the research data. The fourth test was the autocorrelation test with the result of the probability value > 0.05 , which indicated that the data were normally distributed.

3.1.3 t Test

One of the objectives of this research was to determine the effect and relationship between variables partially. The test carried out to find results related to these issues was by using linear regression statistical tests. The results of the t test in this research are shown as follows:

Table 2. Linear Regression Analysis

Model	Coefficients ^a		t	Sig.	
	Unstandardized Coefficients				Standardized Coefficients
	B	Std. Error			Beta
1 (Constant)	-.711	6.574			
X1	1.177	1.252	.086	.940	

X2	-.004	.275	-.001	-.014	.989
X3	1.271	.167	.795	7.621	.000

a. Dependent Variable: Y

Based on the results of linear regression, the company size (X1) showed a sig value of $0.352 > 0.05$, which assumed that the size of the company had no effect on the sustainability of SME's. The learning process (X2) showed a sig value of $0.989 > 0.05$, which assumed that the learning process had no effect on the sustainability of SME's. Financial literacy (X3) showed a sig value of $0.000 < 0.05$, which assumed that financial literacy affected the sustainability of SME's.

3.1.4 F Test

Another research objective was to evaluate the effect of the independent variable on the dependent variable simultaneously. The statistical results of the simultaneous linear regression test are presented as follows:

Table 3. F Test

		Tim				
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	8984.275	3	2994.758	44.033	.000 ^b
	Residual	3536.582	52	68.011		
	Total	12520.857	55			

a. Dependent Variable: Y

b. Predictors: (Constant), X3, X2, X1

Regarding to the results of the F test, it was found that the value of sig was amounted to $0.000 < 0.05$. Thus, it may be inferred that company size, learning process and financial literacy provided simultaneous influence on the sustainability of SME's.

3.2 Discussion

3.2.1 Company Size

Questionnaires distributed to respondents showed a result of 27%. These data indicated that the company size owned by SME's in Cimahi City was still relatively low. This was due to the ownership of the total assets of not more than IDR 25,000,000 and the sales obtained for one year were not more than IDR 150,000,000. The data showed that the size of SME's companies in Cimahi City was still classified as micro. Total assets that are quite low have not been able to make MSMEs develop. Not only for business expansion, MSMEs still use assets to finance their operational activities,

The company's assets will increase due to increasing sales transactions. Based on research conducted on MSMEs in Cimahi City, overall sales in MSMEs are still below Rp. 150,000,000. This indicates that competition in gaining market share is still minimal. If MSMEs do not innovate and set the right business strategy, then MSMEs will be difficult to develop and even lose competitiveness with other types of businesses.

If its total assets grow rapidly, it will make it easier for MSMEs to expand. Thus, it will be easier for MSMEs to implement sustainability. The implementation of sustainability is not only intended for internal parties but can provide benefits for external parties.

3.2.2 Learning process

Referring to the results of the questionnaire, the learning process showed a result of 67% of the ideal score. The data showed that the learning process that was found in SME's of Cimahi City was in the moderate category. This can be seen from the level of education of SME's managers which was amounted to 80%-85%, who took elementary to high school education. The education level of undergraduate or diploma taken was only amounted to 39%. In addition, SME's managers rarely attended courses, training and socialization which were specifically organized to improve SME's management capabilities. Thus, the learning process outside of normal education was still relatively low with only 32% being aware that non-formal education was highly required to improve the ability of SME's managers in Cimahi City.

Education is one of the main capital in managing a business. Knowledge and ability greatly support the maintenance of a business entity's going concerned. Education can be taken through formal and informal institutions. This is part of the learning process for SME's managers. The learning process supports managers in improving managers' skills in developing their business. In addition, knowledge and abilities can also make MSMEs more useful for all parties involved.

3.2.3 Financial Literacy

The results of the research for financial literacy showed the data which was amounted to 63% of the ideal score. These data indicated that the level of understanding of SME's managers about financial literacy was still relatively low. This can be viewed from their activities that did not significantly understand the recording of transactions, the importance of proof of transactions, reporting, information about loans, loan interest, business strategies and knowledge of currency values. Financial literacy is considered an important element in developing SME's in this increasingly competitive business era.

Financial literacy looks trivial but if it is not understood properly it will result in financial management defects. The understanding of human resources on the importance of financial literacy is more than 50%, but when viewed from the implementation it is still lacking. This can be seen from the evidence of transactions that are rarely documented. One of the main sources of financial reporting is transaction evidence. If there is no proof of the transaction, the application of other financial literacy will also experience obstacles. Thus, the information is not only understood but must be applied so that it can have a positive impact on MSMEs.

3.2.4 Sustainability Reporting

In addition to the development of the direction of the company's goals which were originally profit-oriented to green accounting, SME's in Cimahi City were found to have quite understood the importance of economic, environmental and social aspects for the sustainability of SME's. This can be seen from the actual data which was amounted to 58% of the ideal score for the sustainability of SME's. The data showed that SME's in Cimahi City had begun to realize the importance of other aspects besides finance or the economy.

However, this must still get support from other parties such as the government. The government needs to create programs that can encourage MSMEs to be involved in implementing sustainability. Thus, sustainability will be more easily implemented by every line of society accompanied by the government.

3.2.5 Company Size and SME's Sustainability

The statistical result of the t test showed a sig value of 0.352. This result indicated that the company size had no effect on the sustainability of SME's. The reason for this was that the number of assets and sales obtained in a year was still relatively low. The total assets owned by SME's showed the company's ability to manage business in achieving profits. If the total assets owned were still relatively small, then the sales obtained were also only in small amounts. The proceeds from the sale were only able to cover expenses and a small amount of additional capital. So that, the sustainability of SME's could not be implemented [12][14][13].

These obstacles hinder the sustainability process of SMEs because their resources are limited [12]. On the other hand, resources are very much needed for business development and increasing the role of MSMEs in carrying out sustainability. These resources can be obtained by using the owner's capital or applying for a loan. Thus the assets owned will also increase. The greater the assets of a company, the more resources used will be and the company's goals will be achieved. This is very supportive in the implementation of sustainability in terms of social, environmental, and economic aspects. Thus, MSMEs and stakeholders will provide mutual benefits.

3.2.6 Learning Process and SME's Sustainability

The statistical result of the t test showed a sig value of 0.989. This result indicated that the learning process did not provide an influence on the sustainability of SME's. This was due to the level of education engaged by them was still relatively low. Most SME's managers only had a high school education level. Besides that, non-formal education for SME's managers was very rarely attended and tended to never be done. Consequently, the learning process for SME's in Cimahi City was still relatively low. Furthermore, the influence of the learning process that was not found on the sustainability of SME's was caused by the lack of awareness of SME's managers that the knowledge and skills of SME's managers could be obtained from non-formal education. If there was no level of awareness of the importance of the learning process, the learning process would not affect the sustainability of SME's [12].

3.2.7 Financial Literacy and SME's Sustainability

The statistical result of the t test showed a sig value of $0.000 < 0.05$. This result indicated that financial literacy affected the sustainability of SME's. The business experience undergone by SME's managers had long provided their own understanding of the importance of financial literacy. Furthermore, SME's managers did not tend to require proof of certain transactions to evaluate their transactions. Moreover, SME's managers often had difficulty in determining the condition of their MSMEs, whether they experience profits or losses in a certain period. Furthermore, SME's managers had difficulty in obtaining funds from third parties such as banks, because SME's did not have any financial reports. This could make SME's managers aware of the importance of financial literacy in managing a business. Thus, SME's managers realized that financial literacy affected the sustainability of SME's.

By understanding finances in a business, SME's could understand the risks faced by the company and would certainly understand the application of sustainability in SME's [9][23][24]. Risks that may arise can be overcome with the understanding of SME's owners regarding financial literacy. Thus, financial literacy is very important in supporting the sustainability of SME's businesses and MSMEs can play a role in implementing sustainability. MSMEs who understand and apply financial literacy well can assist management in managing their business so that it will improve the performance and going concerned of MSMEs [18].

The better financial literacy, the better the implementation of sustainability, and vice versa, the lower the financial literacy, the lower the implementation of sustainability. This is because financial literacy is one of the factors that can determine the ability of capital owners to manage their businesses. If financial literacy is good, the ability to manage their business will also be good and managers will find it easier to implement sustainability [22].

3.2.8 Company Size, Learning Process, Financial Literacy and SME's Sustainability.

The result of the F test that had been carried out showed a sig value of $0.000 < 0.05$. This result indicated that the company size, the learning process, and the financial literacy affected the sustainability of SME's. The sustainability of SME's would significantly increase if the company size, the learning process and the financial literacy also increase. This was due to the large size of the company indicated the large number of assets owned, so that it would support the learning process which was caused by adequate funds to increase knowledge, including financial literacy. Consequently, the sustainability of SME's would be significantly better [15][16][18][24].

4 Conclusions

Based on research conducted in SME's registered in Cimahi City, it may be concluded that:

- a) The company size had no effect in promoting the sustainability of SME's.
- b) The learning process did not provide any effect in promoting the sustainability of SME's
- c) Financial literacy had an effect in promoting the sustainability of SME's.
- d) Company size, learning process and financial literacy simultaneously affected the sustainability of SME's.

MSMEs are one of the parties that strengthen the economy of a region. Thus, all parties must be involved in promoting the growth of SME's. The government also plays a crucial role by holding activities and making policies that provide benefits for SME's.

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