SUSTAINABILITY AND PERFORMANCE OF SMALL AND MEDIUM BUSINESS: THE ROLE OF FINANCIAL LITERATURE

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\textbf{ABSTRACT}

\textbf{Purpose:} The purpose of this study is to examine the relationship between financial literacy, the sustainability of SMEs and the performance of SMEs.

\textbf{Theoretical framework:} SMEs must have resilience and strength in maintaining the continuity of their business which is exposed to risks that must be faced (Kot, 2008 and Southiseng, and Walsh, 2010). Indicators of the success of SMEs can be measured through the business continuity of SMEs and the performance of SMEs. However, this has challenges, especially related to financial literacy in the use of financial products and services both digital and non-digital. Therefore, the study needs to be developed to gather more information about the role of financial literacy to the sustainability of SMEs and the performance of SMEs.

\textbf{Design/methodology/approach:} This study uses quantitative research with primary data and secondary data. The population in this study were all SMEs and samples were taken using the saturated sample technique as many as 82 registered SMEs and 50 unregistered SMEs. The data analysis technique in this study used Structural Equation Modeling (SEM) with SmartPLS.

\textbf{Findings:} The results of this study indicate the contribution of financial literacy to the SMES’s sustainability and performance. Financial literacy has a positive effect on the sustainability of SMEs. Research also shows that financial literacy has a positive effect on the performance of SMEs.

\textbf{Research, Practical & Social implications:} The future research should highlight other essential factors that could contribute the SME’s sustainability and performance such as halal branding and label as trending factors nowadays.

\textbf{Originality/value:} The results indicate the importance role of financial literacy on the sustainability and performance of SMEs especially SME’s financial management would determine the successful of SME’s livelihood.

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SUSTENTABILIDADE E DESEMPENHO DE PEQUENAS E MÉDIAS EMPRESAS: O PAPEL DA LITERATURA FINANCEIRA

\textbf{RESUMO}

\textbf{Objetivo:} O objetivo deste estudo é examinar a relação entre alfabetização financeira, a sustentabilidade das PMEs e o desempenho das PMEs.

\textbf{Referencial teórico:} as PMEs devem ter resiliência e força para manter a continuidade de seus negócios que estão expostos a riscos que devem ser enfrentados (Kot, 2008 e Southiseng, and Walsh, 2010). Os indicadores do sucesso

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das PME pueden ser medidos através da continuidade do negócio das PME e do desempenho das PME. No entanto, isso apresenta desafios, especialmente relacionados à alfabetização financeira no uso de produtos e serviços financeiros digitais e não digitais. Portanto, o estudo precisa ser desenvolvido para reunir mais informações sobre o papel da alfabetização financeira para a sustentabilidade das PME e o desempenho das PME.

**Desenho/metodologia/abordagem:** Este estudo utiliza pesquisa quantitativa com dados primários e dados secundários. A população neste estudo foi todas as PME e as amostras foram coletadas usando a técnica de amostragem saturada de até 82 PME registradas e 50 PME não registradas. A técnica de análise de dados neste estudo utilizou Modelagem de Equações Estruturais (SEM) com SmartPLS.

**Conclusões:** Os resultados deste estudo indicam o contributo da literacia financeira para a sustentabilidade e desempenho das PME. A literacia financeira tem um efeito positivo na sustentabilidade das PME. A pesquisa também mostra que a alfabetização financeira tem um efeito positivo no desempenho das PME.

**Pesquisa, implicações prácticas e sociais:** A pesquisa futura deve destacar outros fatores essenciais que podem contribuir para a sustentabilidade e o desempenho da PME, como a marca e o rótulo halal como fatores de tendência atualmente.

**Originalidade/valor:** Os resultados indicam a importância do papel da alfabetização financeira na sustentabilidade e no desempenho das PME, especialmente a gestão financeira das PME determinaria o sucesso da subsistência das PME.

**Palavras-chave:** Alfabetização Financeira, Desempenho de Pequenas e Médias Empresas, Sustentabilidade de Pequenas e Médias Empresas.

**SOSTENIBILIDAD Y DESEMPEÑO DE LAS PEQUEÑAS Y MEDIANAS EMPRESAS: EL PAPEL DE LA LITERATURA FINANCIERA**

**RESUMEN**

**Propósito:** El propósito de este estudio es examinar la relación entre la educación financiera, la sostenibilidad de las PYME y el desempeño de las PYME.

**Marco teórico:** Las PYMES deben tener resiliencia y fortaleza para mantener la continuidad del negocio el cual está expuesto a riesgos que deben enfrentar (Kot, 2008 y Southiseng, y Walsh, 2010). Los indicadores del éxito de las PYME se pueden medir a través de la continuidad comercial de las PYME y el desempeño de las PYME.

Sin embargo, esto presenta desafíos, especialmente relacionados con la educación financiera en el uso de productos y servicios financieros, tanto digitales como no digitales. Por lo tanto, el estudio debe desarrollarse para recopilar más información sobre el papel de la educación financiera para la sostenibilidad de las PYME y el desempeño de las PYME.

**Diseño/metodología/enfoque:** Este estudio utiliza investigación cuantitativa con datos primarios y datos secundarios. La población de este estudio fueron todas las PYMES y se tomaron muestras utilizando la técnica de muestra saturada hasta 82 PYMES registradas y 50 PYMES no registradas. La técnica de análisis de datos en este estudio utilizó Structural Equation Modeling (SEM) con SmartPLS.

**Hallazgos:** Los resultados de este estudio indican la contribución de la educación financiera a la sostenibilidad y el desempeño de las PYMES. La educación financiera tiene un efecto positivo en la sostenibilidad de las pymes. La investigación también muestra que la educación financiera tiene un efecto positivo en el desempeño de las pymes.

**Investigación, implicaciones prácticas y sociales:** la investigación futura debe resaltar otros factores esenciales que podrían contribuir a la sostenibilidad y el rendimiento de las PYME, como la marca y la etiqueta halal como factores de tendencia en la actualidad.

**Originalidad/valor:** Los resultados indican la importancia del papel de la educación financiera en la sostenibilidad y el desempeño de las PYMES, especialmente la gestión financiera de las PYMES, lo que determinaría el éxito del sustento de las PYMES.

**Palabras clave:** Educación Financiera, Rendimiento de la Pequeña y Mediana Empresa, Sostenibilidad de la Pequeña y Mediana Empresa.
INTRODUCTION

Small and medium enterprises or abbreviated as SMEs also contribute to the country's economy in providing employment. SMEs have a socio-economic role that is shown in resilience and competitiveness at various levels of the economy and challenges in the business world (Savlovschi and Robu, 2011; Rudenko, et.al, 2015; Nikitina, Abraimova, and Shalaieva, 2020). SMEs as part of entrepreneurship have the potential to support the country's economy both in quantity and quality shown by business owners. The business success of SMEs can be illustrated through their performance and business continuity. The performance of SMEs is an illustration of the ability and success of SMEs in achieving their business goals and maintaining their existence in the industry. The performance of SMEs proves the achievements of SMEs over time in realizing their business goals by using available resources (Herlinawati, Suryana, Ahman and Machmud, 2019). The measure of business performance symbolized in the form of business profits is obtained through a process to produce or provide a number of goods and services for consumers at the expense of a limited number of company resources (Jati, 2017: 540).

Meanwhile, the sustainability of SMEs is a pillar of SMEs to show the performance of SMEs that are integrated with the resources of SMEs. Maintaining the sustainability of SMEs is very important in determining the success and failure of a business. Business continuity is a core business process that requires continuous innovation and has an impact on the success of business performance from time to time (Hanggraeni, Slusarczyk, Sulung and Subroto, 2019). SMEs must have resilience and strength in maintaining the continuity of their business which is exposed to risks that must be faced (Kot, 2008 and Southiseng, and Walsh, 2010). Therefore, Indonesia as part of the ASEAN Policy Blue Print for SME Development (APBSD) conducts SME development with one of its programs being increased access to finance (Widayanti et al, 2017: 154) through increasing financial literacy.

To maintain business continuity and improve business performance, financial literacy is an important factor for business owners in managing their business finances. Despite Indonesia's low financial literacy (Detik.com in Putri, Bailusy, and Hadady, 2021), it is an opening for business owners to improve their capabilities in managing financial resources by utilizing financial products and services available in the financial market. Financial literacy provides guidance for making effective decisions in carrying out business financial management (Gavigan, 2010) with the support of both knowledge and ability to handle financial resources on a rational basis (Eniola and Entebang, 2015).
The study is conducted in South Sulawesi, Bantaeng Regency for several reasons. Firstly, Bantaeng Regency is one of the districts with rapid economic growth, the number of SMEs in Bantaeng Regency has increased every year in each of their respective sectors. The level of SMEs that experienced the greatest increase was in the wholesale and retail trade sector, and cars and motorcycles’ workshop (Bantaeng Regency Cooperatives and SMEs Office, 2020). Secondly, Like most SMEs in Indonesia, MSMEs in Bantaeng Regency still find challenges especially related to information resources on available financial markets. Nevertheless, Bantaeng Regency has been chosen to be a pilot project of Japanese Government, which indicates broader financial markets for SME’s. With the support and assistance of the government in promoting financial literacy through the Financial Services Authority in South Sulawesi, the challenges in financial literacy can be minimized. SMEs can use financial literacy to meet challenges in a dynamic business environment. Based on the background described above, the authors carry out a research entitled "Sustainability and Performance of Small Medium Business: The Role of Financial Literacy". The objectives of this study are to study the role of financial literacy towards sustainability of small medium business and to study the role of financial literacy to performance of small medium business.

LITERATURE REVIEW

Resource Based View Theory

Resource based view or resource based model is a theory that relies on the resources owned by a business organization which will be utilized optimally to achieve organizational goals and competitive advantage. This indicates that the company must use its resources and capabilities to have an advantage over its competitors (Parmitasari and Alim, 2020). Resource-based strategy uses the strengths of a company's rare and valuable resources and competitive capabilities to deliver value to consumers in a way that is difficult for competitors to imitate (Thompson and Strickland, 2009). Resources are inputs for the company's production process in the form of capital, equipment, employee and manager capabilities and other resources. While the capability is the ability of a collection of resources to perform tasks or activities in an integrated action. These resources and capabilities are used as sources for companies to achieve competitive advantage (Parmitasari and Alim, 2020).
Relationship Between Financial Literacy and Business Continuity

Business continuity is one of the stages that must be passed by business owners to achieve business goals. When a business owner has business continuity, it means that the business owner has the ability and knowledge to manage the business by utilizing the available resources in a dynamic and risky business environment. The ability and knowledge of financial products and services in the financial market is supported by the financial literacy possessed by business owners. Financial literacy plays a role in business sustainability (Winarsih, Mutoharoh, Tahar and Azis, 2020; Amelia, Nauli and Desriani, 2020; and Jati, Rosary, Maggidae and Makatita, 2021), by providing the ability for business owners to make strategic investment decisions in managing finances (Usamo and Yusoff, 2019). Based on these arguments, the hypothesis is as follows:

H1: financial literacy has a significant positive effect on the sustainability of SME business.

Relationship Between Financial Literacy and Business Performance

Financial literacy has an important role for business owners in improving their business performance. Financial literacy provides an opportunity for business owners to make effective decisions about the utilization of their business financial management (Eniola & Entebang, 2016; and Usama and Yusoff, 2019). Business owners will use their financial literacy in the form of knowledge and expertise about information and access to financial products and services as support for the mindset and behaviour of business owners in analyzing and making business decisions. Financial literacy has an influence on individual financial decisions (Faroki, 2014), increased understanding of financial markets (Lusardi and Mitchell, 2013), and increased business performance or profits (Morrison, 2006; Treptow, 2014; Patrick, 2015, and Mwithiga, 2016). Based on these arguments, the hypothesis is as follows:

H2: financial literacy has a significant positive effect on the performance of SMEs

Research Framework

Based on the theory, variable relationships and hypotheses above, the research framework in this article is as follows:
MATERIAL AND METHODOLOGY

The study uses quantitative research that emphasizes research on causal relationships between variables. The types of data used in this study are primary data and secondary data. Primary data comes from questionnaires distributed to respondents, namely SME business actors or owners in Bantaeng Regency, South Sulawesi. Secondary data in this study comes from published data on SMEs in South Sulawesi, especially Bantaeng Regency. This study has a population of 82 registered SMEs and 50 unregistered SMEs at the UPTD Office of the Integrated Business Service Center (PLUT) in Bantaeng Regency. The sample used in this study was selected using the saturated sample technique. In data analysis, this study uses structural equation modeling with Smart PLS analysis tools.

RESULTS AND DISCUSSION

Results

The research uses structural equation modeling with Smart PLS as data analysis technique. Before interpreting the research results, the data quality test using the outer model or known as the measurement model is carried out to ensure the data used is valid and reliable. The measurement model is assessed from convergent validity, discriminant validity, and consistency reliability. For convergent validity, the financial literacy variable has 7 indicators that have an outer loading of more than 0.7. Meanwhile, the SME performance variable has 8 indicators and the business continuity variable has 4 indicators with an outer loading of more than 0.7. The three variables have an AVE value of more than 0.5. Furthermore, for discriminant validity, the results show that the data for each variable meets the Fornell Larcker Criterion. Finally, for Composite reliability, all reliable constructs, both composite reliability
and Cronbach's alpha, have values above 0.70. This shows that all variables in this research model have internal consistency reliability.

For the next stage, the research began to examine the relationship between variables. This is done through testing the structural model (inner model). In testing the structural model (inner model) is evaluated using R-Square so that the dependent construct is t test and the significance of the coefficients of the structural path parameters. Based on the results of data analysis, the R-Square value for the SME performance variable is 49.9% and for the sustainability variable it is 31.3%. This indicates that 49.9% of changes in the performance of SMEs can be explained by the financial literacy variable, the rest is explained by other variables. Meanwhile, 31.3% of changes in the sustainability of SMEs can be explained by the financial literacy variable, the rest is explained by other variables. The significance value of the relationship between variables in this study can be seen as follows:

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<thead>
<tr>
<th>Table Hypothesis Testing Results</th>
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<tr>
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<tr>
<td>Financial Literacy -&gt; SME’s Sustainability</td>
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<tr>
<td>Financial Literacy -&gt; SME’s Performance</td>
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Source: Data processed, 2020

Based on the table, the results of the study show that the hypothesis of the relationship between financial literacy and the sustainability of SMEs is also positive and significant. The hypothesis of the relationship between financial literacy and the sustainability of SMEs is indicated to be significant with a p-value of 0.000 with a t-statistics value of 11.942. The positive relationship between financial literacy and SME sustainability is reflected in the constant value of 0.559. Meanwhile, the results of the study also show that the relationship between financial literacy and SME performance is positive and significant. The hypothesis of the relationship between financial literacy and the performance of SMEs is significant with a p value of 0.000 with a t-statistics value of 23.752. The positive direction of the relationship between financial literacy and SME performance is seen in the constant value of 0.706.

DISCUSSION

Relationship Between Financial Literacy and Business Continuity of Small and Medium Business

Based on the results of the research above, the hypothesis regarding the relationship between financial literacy and SME business sustainability is indicated to be positive and
significant. This shows that when the financial literacy of business owners increases, it provides the potential for improvement in the sustainability of the SME business. Financial literacy possessed by SME business owners provides encouragement and strength to be able to maintain business or maintain business resilience in competition in their industry (Winarsih, Mutoharoh, Tahar and Azis, 2020; Amelia, Nauli and Desriani, 2020; and Jati, Rosary, Maggidae and Makatita, 2021). The finding is supported by resource based view theory which prioritizes internal strength or resources in facing competition and achieving competitive advantage. Resource-based strategy uses the strengths of a company’s rare and valuable resources and competitive capabilities to deliver value to consumers in a way that is difficult for competitors to imitate (Thompson and Strickland, 2009). The findings in this study are also in line with the subjectivist theory of entrepreneurship, where business owners as entrepreneurs will always try to form entrepreneurship within themselves through a subjective discovery process where one of the stages is learning (Kor, Mahoney and Michael, 2009). Financial literacy provides opportunities for business owners to discover and learn about finance through financial literacy and maintain the sustainability of their business in a sustainable manner. The synergy of internal resources, both knowledge, expertise and experience from financial literacy owned by business owners will be a strength in maintaining business continuity. Therefore, it is essential for the business to match between resources and abilities with opportunities and threats to excel the business performance (Chong, Hong and Teck, 2022).

**Relationship Between Financial Literacy and Performance of Small and Medium Business**

The results show that in Small and Medium Enterprises or SMEs in Bantaeng Regency in South Sulawesi, financial literacy plays a positive and significant role in the performance of SMEs. This study indicates the results are in line with the research conducted by Morrison, (2006); Treptow, (2014; Cherugong, (2015), Entebang (2016) and Mwithiga, (2016). In other words, when financial literacy increases, it gives a positive impetus to improving the performance of SMEs. This is in line with the resource based view (RBV) theory. RBV says that companies must use their resources and capabilities to have an advantage over their competitors or competitive advantage (Parmitasari and Alim, 2020). The internal resources of the business organization will be a driving force and a force in facing competition in business and encourage business organizations to conduct business operations and perform well. Moreover, resources in the financial sector which have a close relationship with the realization
of optimal business performance. Financial management or financial financing is an important source of business performance and has been proven to have an effect on business performance (Wiklund and Shepherd, 2005; and Ihua, 2009). This supports the findings in this study that when SME business owners have good financial literacy, SME business owners have the ability and knowledge of financial products and services so that they can make financial decisions that are divided for SME businesses and ultimately have an impact on SME performance. The ability and knowledge such as goal-oriented mindset and being realistic, motivated, more flexible, and self-assured are distinguishing characteristics that benefit business owners (Hussin and Azis, 2021).

CONCLUSION

Financial literacy is indicated to have an important role for the sustainability and performance of SMEs in Bantaeng Regency, South Sulawesi. Based on the results of the study, financial literacy as an internal resource of SME business owners is able to have a positive impact on the sustainability and performance of SMEs. With the presence of financial literacy, business owners are able to use internal resources in the form of knowledge, expertise and experience in finding and studying financial products and services so that they are able to produce strategic and optimal decision making in maintaining the sustainability of SMEs. In addition, the process of discovery and learning in financial literacy also gives business owners strength in facing a dynamic business environment so that they can realize good performance for SMEs. Increasing the potential of internal resources, namely financial literacy, makes business owners experience a process of subjectivity to become entrepreneurs who can utilize available resources. The limitation of this research is the focus of research location of small medium business too narrow. Other limitation of this study should consider other variables such as external factors of small medium business such as government support. Future research should expand research location area and should include other related factors that might influence the sustainability and performance of small medium business related to the current business environment.

REFERENCES


