The Inclusion and Literation Finance on MSME performance through adoption of financial reporting standard

Mirna Dyah Praptitorini[1], Astohar[2]

[1,2]Accounting Program/STIE Totalwin/Semarang

Article Info	ABSTRACT
	MSMEs must monitor their financial health by preparing financial reports according to established standards. This affects the overall performance of SMEs, which is also influenced by other developing factors such as financial inclusion and financial literacy. This research aims to investigate how the application of financial reporting standards can help regulate the relationship between financial literacy and financial inclusion on the performance MSMEs in Semarang City. A structured questionnaire was used to collect quantitative data from MSME actors in 16 sub-districts of the city of Semarang. Sampling in this study used the cluster sampling method. There are 145 data samples available. Data analysis uses multiple regression and the Sobel test to identify mediating variables. The research results show that SME performance is significantly and positively influenced by financial literacy, financial inclusion and the adoption of financial reporting standards. The adoption of financial reporting standards can improve the relationship between financial literacy and financial inclusion on MSME performance. The contribution of this research is to increase understanding of the importance of financial literacy. financial inclusion and adoption of reporting standards. Financing that meets standards affects the performance of small and medium enterprises (SMEs) in the long term.

Corresponding Author:

Mirna Dyah Praptitorini,
Accounting program/STIE Totalwin Semarang,
STIE Totalwin,
Gedongsongo Raya No 12 Semarang, Central Java, 50147, Indonesia.
Email: dyah@stietotalwin.ac.id

1. INTRODUCTION

Sector growth A number of micro, small and medium enterprises (MSME) must continue to support the creation of an ecosystem that encourages community entrepreneurship, which aims to support the country's economic performance. Data from the Badan Pusat Statistik (BPS) shows that Indonesia's economic growth was 5.17% in the second quarter of 2023, driven by public consumption and household consumption. The picture of economic growth in the second quarter of 2023 shows that the engine of economic growth based on the structure of gross domestic product (GDP) is still dominated by domestic consumption spending which contributes more than half of Indonesia's GDP, namely 53.31%.

In the context of domestic consumption, it appears that economic growth in the second quarter of 2023 is largely due to the contribution of national MSME actors. The role of the MSME sector in supporting national economic performance must be able to encourage stakeholders to

continue to increase the number of strong national MSME actors. The government is planning community-based economic development through the MSME sector. Considering that the role of MSMEs is very important economically to increase people's income and welfare, it is very important to pay attention to the sustainability of micro, small and medium enterprises (SMEs) (Sanistasya et al., 2019). Apart from that, because it is important, it is necessary to improve the quality of micro, small and medium enterprises (MEME) so that they can compete with foreign entrepreneurs in free trade (Ratnawati, 2020). Indonesia has the potential to become a strong economic base because the number of SMEs, especially micro businesses, is very large and the ability to absorb labor is very large. The state and business actors must increase the "category" from micro businesses to medium businesses. This business base has proven strong even in times of economic crisis. Micro businesses also have fast transaction turnover, domestic production and are connected to the main needs of society (Yahya & Rahayu, 2020).

Resource Based View Theory is a framework used to analyze how a company's internal resources can provide competitive advantages. This theory emphasizes the importance of unique and inimitable resources in creating added value for the company. According to this theory, companies that have rare, valuable, non-imitable and non-substitutable resources will have a competitive advantage in the market (Barney et al., 2001). This theory suggests that resources that are valuable, rare, inimitable and non-substitutable will provide a competitive advantage for the company. By utilizing these resources effectively, a company can achieve better performance than its competitors. Cultivating ongoing interest among employees is essential to creating a healthy and productive work environment. Company leaders must continue to stimulate and support employees in achieving their goals. This includes creating opportunities for career development, providing constructive feedback, and building strong relationships among colleagues. By doing this, companies can create a culture where every employee feels valued and motivated to make their best contribution.

In general, small and medium businesses experience decreased growth and face competition from large companies due to management problems such as lack of qualified human resources, unsustainable innovation, unstable business operations, financing and marketing problems. Ultimately, well-designed efforts are needed to improve the performance and sustainability of MSMEs in the creative sector. The ability of MSMEs to achieve predetermined targets is the overall performance of MSMEs. The performance of MSMEs is an important factor in determining their competitiveness, which can be achieved through levels of efficiency and productivity that ensure organizational success and can meet the expectations of the three main stakeholders: owners, workers and consumers (Eton et al., 2021). Even so, until now there are still differences of opinion regarding how to measure the performance of MSMEs. Factors that influence business growth and development are known as determinants of business performance (Simpson et al., 2012). Achieving company targets and objectives, acceptance of organizational activities by interested parties, profitability and market share of business operations, and leadership satisfaction with business results are some signs of company performance (Joni et al., 2020).

Financial Literacy refers to a person's knowledge and ability to manage finances effectively. This includes understanding how to manage money, create a budget, save, invest, and manage debt. Financial literacy is a combination of financial knowledge and skills that helps entrepreneurs make wise decisions about money (Bakhtiar, Prayoga, et al., 2022). The literacy level of MSMEs influences their ability to make strategic decisions that influence MSME performance. MSME performance contributes to economic growth and increasing financial inclusion can improve their performance, create jobs and increase sustainable economic development. National economy In developing countries, low financial inclusion in small and medium enterprises is considered a big problem for them (Park & Mercado, 2015). Understanding and understanding financial literacy and financial inclusion is very important for MSME entrepreneurs. This refers to financial management, which significantly influences the success of SMEs. SMEs must realize that a good understanding of financial literacy is important, therefore financial literacy training is important (Buchdadi et al., 2020).

In order to improve financial performance and ensure the continuity of their business, business people need to have a good understanding of finance. Having knowledge about financial planning can help someone to manage economic information appropriately and make the right decisions about saving, managing debt, diversifying investments, and financial planning (Lusardi & Mitchell, 2014). This capability is increasingly crucial to enable individuals and companies to overcome persistent challenges. To make their businesses more profitable, entrepreneurs need to have good financial knowledge and the skills to manage their resources efficiently. Measurements made by the central bank show that Indonesia only achieved 38.03% in terms of financial literacy, which shows that its sensitivity is still too low (Basmar & S, 2021).

According to the Resource Based View Theory, financial capability is an abstract asset owned by the company. The expertise in managing finances of MSME actors has a significant impact on the way of thinking and strategy in running MSMEs, which will contribute to increasing the efficiency and performance of MSMEs. Several previous studies have shown that financial literacy plays an important role in managing business finances, including managing assets and liabilities (Karim et al., 2019). Research by Yakob et al., 2021) shows that skills in financial literacy are very beneficial for small and medium enterprises (SMEs).

Apart from financial literacy, the MSME sector also needs financial inclusion. When financial inclusion is owned by SMEs, it can provide the widest possible access to financial services and eliminate obstacles to them (Rahayu & Rahmawati, 2022). Financial inclusion is a process that ensures easy access and benefits for everyone in using the formal financial system (Anisyah et al., 2021). This is vital because they can increase the use of funds from their own region, which will provide opportunities for small and medium enterprises (SMEs) to increase their productivity and growth. Financial inclusion can also increase the role of existing financial institutions and increase the reach of wider and faster financial services (Purwidianti & Tubastuvi, 2019). It is very important for SMEs to follow accounting standards in their financial reporting. Understanding compliance levels can help identify areas that need improvement and ensure more reliable and comparable financial information (Febriana, 2021). Stakeholders such as investors, creditors and government agencies make decisions based on the quality of MSME financial reporting. Understanding these impacts may suggest that accurate and transparent financial reporting is critical for small and medium-sized enterprises (SMEs).

Financial inclusion, in accordance with the Resource Based View Theory, is an external opportunity that can be widely used by MSME actors. With more inclusive financial access, MSMEs can improve their performance because they can take advantage of financial services at more affordable costs. Several experts have conducted research on the influence of financial inclusion on the development of MSMEs. Ratnawati (2020) concluded that economic activity, including the performance of MSMEs, could be better by implementing appropriate financial inclusion.

Small and medium enterprise (MSME) owners must regularly monitor their finances to ensure growth and positive contribution to the economy. Many MSMEs may not realize how important accounting and financial management are in running their business. Financial reports have great significance because their purpose is to provide data regarding the financial performance of small and medium-sized companies (SMEs) so that individuals can make better decisions. Therefore, financial reports are also an important consideration in decision making so that MSME businesses can run effectively and efficiently (Bokol et al., 2020). It is important to establish and apply effective standards in preparing MSME financial reports. All small businesses have implemented strong financial reporting standards globally (Silitonga et al., 2023). Effective use of accounting information can increase a positive view of the financial performance of MSMEs. Accounting resources and the application of basic accounting principles play an important role in achieving this (Yuliati et al., 2022).

According to the Resource Based View theory, a company's internal advantages will help the company to develop consistently. MSMEs that apply financial reporting standards in preparing their financial reports demonstrate a higher level of financial quality and reliability compared to MSMEs that do not follow standards in their financial reporting. The advantages of MSMEs in terms of

accounting resources can contribute to stakeholder decision making, thereby improving the performance of MSMEs positively. Research Silitonga et, al., (2023) show that the implementation of financial reporting standards has a positive impact on the performance of Micro, Small and Medium Enterprises (MSMEs) in Pematang Siantar.

MSME financial literacy includes managerial skills in recording financial reports, managing debt, and preparing financial budgets. MSME management needs to be able to record all business activities, income and expenses, as well as profits (Gunawan et al., 2023). Most financial institutions do not provide business loans to MSMEs because MSMEs often have difficulty in preparing their own financial reports. According to financial management books, MSMEs have two main options in obtaining funds. One of the most important things for small and medium enterprises (MSMEs) is to have savings that they can utilize. Another one is their possibility of incurring obligations to others. According to research conducted by (Amri & Iramani, 2018), financial reports have a very vital role for MSMEs in assessing their business achievements.

The Indonesian government's initiative in advancing Financial Inclusion provides opportunities for MSMEs in Indonesia to change and improve the quality of their financial reports. By taking training and deepening their financial knowledge, they can improve their financial credibility. Finally, the distribution of loans from banks to MSMEs can be improved (Steelyana, 2013). According to research by (Yuliyanti & Pramesti, 2021), MSMEs experience significantly affected performance due to lack of access to financial services. (Bowen et al., 2009) showed that lack of adequate funding was a major obstacle to the performance, growth and survival of small businesses in Kenya.

The aim of this research is to determine whether the implementation of financial reporting standards can facilitate the relationship between financial literacy and financial inclusion in order to improve the performance and sustainability of SMEs. It is necessary to conduct a study of Micro, Small and Medium Enterprises (MSMEs) in the City of Semarang as well as a study of the understanding of SMEs in the City of Semarang regarding financial literacy, financial inclusion and financial reporting standards. By improving the performance of SMEs, the economic growth of Semarang City will be further accelerated.

The hypothesis proposed in this research are H1: Financial literacy has a positive effect on adoption of financial reporting standards, H2: Financial literacy has a positive effect on MSME performance, H3: Financial inclusion has a positive effect on financial reporting standards, H4: Financial inclusion has a positive effect on MSME performance, H5: Adoption of financial reporting standards has a positive effect on MSME performance, H6: Adoption of financial reporting standards strengthens the relationship between financial literacy and MSME Performance, H7: Adoption of financial reporting standards strengthens the relationship between financial inclusion and MSME performance.

2. RESEARCH METHOD

Conceptual and Operational Definitions

There are four indicators of financial literacy, namely knowledge of basic finance, savings and loans (credit), insurance and investment (Ramadanti et al., 2021). Three indicators of accounting adoption are the preparation of balance sheets, income statement and financial report notes (Silitonga et al. , 2023). Three indicators of financial inclusion are: availability/access, product use and quality of use (Suryani, 2021). Three indicators for MSME performance are: profitability dimension, growth dimension and employee number growth dimension (Febriana, 2021).

Population and Sample

The population of this research is micro, small and medium enterprises or more commonly known as MSMEs in the Semarang City area, taken from various elements of the types of business carried out and spread across 16 sub-districts. The sample used uses the cluster random sampling method (per sub-district) (Sugiyono, 2019). After going through the data compilation and screening

stages, the data that can be used is 145 samples spread across several sub-districts and several types of industry or business.

Method of collecting data

Data used is data from initial sources (primary data) obtained by conducting direct interviews and also from distributing questionnaires. Interviews and distribution of questionnaires were carried out with owners or managers of MSMEs in the Semarang area, Central Java Province.

Data analysis

The analysis tool uses Smart PLS version 3 with analysis stages consisting of testing validity and reliability, and evaluating the external model with convergent validity. The expected convergent validity criterion is > 0.7 (Hair et al., 2014). The internal evaluation model is by reviewing the R Square (R2) value with the criteria that the R2 value is in the range of 0.5-0.6, which means good, 0-0.33, which means moderate and 0-0.19, which means weak. Next, review the F-Square (f2) value with assessment criteria of 0.02 which means weak, 0.15 which means moderate, and 0.35 which means large (Hair et al., 2014). Finally, hypothesis testing is the criterion for measuring significance and a probability value <0.05.

3.   RESULTS AND DISCUSSIONS

Variable Description

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Literation	145	1.75	5.00	3.4310	.68938
Inclusion	145	2.00	5.00	3.4460	.68743
Adoption of FRS	145	2.25	4.75	3.5172	.57180
Performance	145	1.67	5.00	3.4897	.67934
Valid N (listwise)	145				

Source: Data processing results 2023, using Smart PLS

Based on the variable description, it can be explained that the average financial literacy variable is 3.43 (sufficient), financial inclusion is 3.45 (sufficient), accounting adoption is 3.52 (sufficient) and the MSME performance variable is 3.49 (sufficient). This shows that MSMEs in terms of utilization and ability in finance or adoption of accounting in general are still in the sufficient category.

The validity and reliability test

Table 2. the validity and reliability test

No	Variable	Item	Outer Louding	AVE	Composite Reliability	Cronbach Alpha
1	Financial Literation	L1	0,726	0,603	0,858	0,780
		L2	0,785			
		L3	0,848			
		L4	0,743			
2	Financial Inclusion	I1	0,809	0,633	0,838	0,713
		I2	0,763			
		I3	0,814			
3	Adoption of FRS	A1	0,818	0,650	0,848	0,732
		A2	0,793			
		A3	0,808			
4	MSME Performance	K1	0,782	0,636	0,840	0,714
		K2	0,797			
		K3	0,813			

Source: Data processing results 2023, using Smart PLS

The validity and reliability test can be shown that the items or indicators of the research variables consisting of financial literacy, financial inclusion, accounting adoption and MSME performance have an outer loudness value that is higher than 0.7. Based on the results of data processing, the indicators for the financial literacy variable meet validity (0.726; 0.785; 0.848 and 0.743 > 0.7). The indicators of the financial inclusion variable meet validity (0.809; 0.763 and 0.814 > 0.7). Indicators of the accounting adoption variable meet validity (0.818; 0.793 and 0.808 > 0.7). The accounting adoption variable initially consisted of 4 indicators and one indicator did not meet validity. The indicators of the MSME performance variable are valid or valid (0.782; 0.797 and 0.813 > 0.7). The results of the data analysis above show that all indicators (after removing one indicator) have an outer loading value of > 0.7 so it can be concluded that the indicators meet validity.

In reliability testing, the Cronbach alpha, composite reliability and average variance extracted (AVE) values for the research variables (literacy, inclusion, accounting adoption and MSME performance) were above 0.7 for loading factor and above 0.5 for AVE. Furthermore, the value for each reliability above obtained is that the composite reliability value for each research variable is also above 0.7. Furthermore, for the Cronbach's alpha and composite reliability values, the values obtained for each variable were also above 0.60, so it can be concluded that all research variables have good reliability values.

Structural Model Analysis (Inner Model)
R-Square

R-Square is a measure of the proportion of variation in the value of a variable that is influenced (endogenous) that can be explained by the variable that influences it (exogenous). The first path model obtained an Adjusted R-Square of 0.277, meaning that 37.7% of accounting adoption from MSMEs in Semarang City was explained by the financial literacy and financial inclusion of these MSMEs. The ability of the financial literacy and financial inclusion variables to explain accounting adoption in MSMEs or the substantial (low) category. The second model obtained an Adjusted R-Square value of 0.702, meaning that 70.2% of the financial literacy, financial inclusion and accounting adoption variables explained the performance of MSMEs in Semarang City or were classified as moderate (Hair et al., 2014).

Hypothesis testing

Next, to prove the hypothesis testing, a significance test is carried out which is used to determine the relationship between the exogenous variables and the endogenous variables. The significant criterion is seen from the p-value. The results of hypothesis testing are as follows:
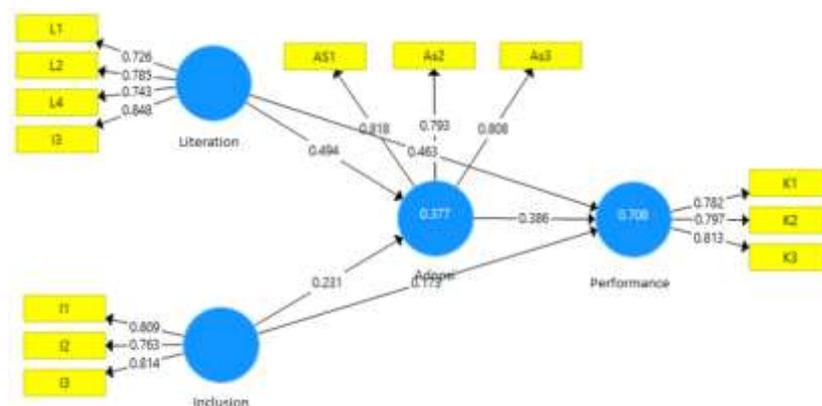

Figure 1. The result of hypothesis test

Based on the model above, the hypothesis results can be concluded in the following table:

Table 3. Result of hypothesis testing

Hypothesis	Coeficient	t statistics	p- value	Result
Literation → Adoption of FR	0,494	7,315	0,000	Accepted
Literation → Performance	0,463	7,123	0,000	Accepted
Inclusion → Adoption of FR	0,231	3,176	0,002	Accepted
Inclusion → Performance	0,173	3,991	0,000	Accepted
Adoption of FR→ Performance	0,386	6,098	0,000	Accepted

Based on the results of testing the first hypothesis (H1), results were obtained that lead to positive and significant results between financial literacy and the adoption of accounting standards. The results indicate that the higher the application of financial literacy possessed by MSMEs, the better the adoption of accounting standards will be.

Based on the results of testing the second hypothesis (H2), results were obtained that lead to positive and significant results between financial literacy and the performance of MSMEs in Semarang City. The results indicate that the higher the application of financial literacy possessed by MSME actors, the higher the performance of MSMEs in Semarang City.

Based on the results of testing the third hypothesis (H3), results were obtained that lead to positive and significant results between financial inclusion and the adoption of accounting standards. The results indicate that the higher the implementation of financial inclusion by MSMEs, the better the adoption of accounting standards.

Based on the results of testing the fourth hypothesis (H4), results were obtained that lead to positive and significant results between financial inclusion and the performance of MSMEs in Semarang City. The results indicate that the higher the implementation of financial inclusion by MSME actors, the higher the performance of MSMEs in Semarang City.

Based on the results of testing the fifth hypothesis (H5), results were obtained that lead to positive and significant results between accounting adoption and the performance of MSMEs in Semarang City. The results indicate that the higher the adoption of accounting, the higher the performance of MSMEs in Semarang City.

Mediation tes

Table 4. Result of mediation testing

Hypothesis	Coeficient	t statistics	p- value	Result
Literation → Adoption of FRS → MSMEs Performance	0,191	4,185	0,000	Accepted
Inclusion → Adoption of FRS → MSMEs Performance	0,089	2,549	0,011	Accepted

Source: Data processing results 2023, using Smart PLS

Based on the results of testing the sixth hypothesis (H6), results were obtained that led to the accounting adoption variable proving to be a mediation (intervening) between the financial literacy variable and the performance of MSMEs in Semarang City. The results indicate that the accounting adoption variable plays a mediating role in the financial literacy variable in increasing the performance of MSMEs in Semarang City.

Based on the results of testing the seventh hypothesis (H7), results were obtained which lead to the accounting adoption variable proving to be a mediating (intervening) variable between financial inclusion and the performance of MSMEs in Semarang City. The results indicate that the accounting adoption variable plays a mediating role in the financial inclusion variable in increasing the performance of MSMEs in Semarang City.

Discussions

Based on the findings from testing the first hypothesis (H1), it was found that there is a positive and significant relationship between the level of financial literacy and the application of financial reporting standards. Financial Literacy refers to a person's knowledge and ability to manage

finances effectively (Bakhtiar, Rusdi, et al., 2022). This includes understanding how to manage money, create a budget, save, invest, and manage debt that have close relationship with the financial report. Implementing financial reporting standards will make it easier for MSMEs to access capital from banks and increase business activities. There is no reason for MSME who want to develop not to have knowledge of financial literacy in financial matters (Lee & Shin, 2018). Then the results of testing the second hypothesis (H2) show that there is a positive and significant relationship between the level of financial literacy and the performance of MSMEs. MSME who have the ability to use financial literacy and are ready to continue learning and improving the quality of their work will be able to survive and develop in this digital era (Ratnawati, 2020).

The results of the third hypothesis test (H3) show positive but not significant results in the relationship between financial inclusion and the adoption of financial reporting standards. The main cause of financial inclusion development is rapid environmental change, including macroeconomic changes, regulations, rapid technological developments, and changes in customer expectations (Silitonga et al., 2023). Financial inclusion means MSMEs can increase the use of funds from their own region, which will provide opportunities for small and medium enterprises (SMEs) to increase their productivity and growth. Financial inclusion can also increase the role of existing financial institutions and increase the reach of wider and faster financial services (Purwidianti & Tubastuvi, 2019). The statement means that if the MSMEs has a good quality of financial report they can also have more change to get funds because stakeholder make decisions based on the quality of MSME financial reporting (Ina Ibor et al., 2017). Then the results of the fourth hypothesis (H4) show a positive and significant relationship between financial inclusion and MSME performance. This sign shows that easy access to finance makes it easier for MSME entrepreneurs to develop, implement and utilize the latest technology, which will increase the competitiveness and superiority of MSME entrepreneurs so that their performance will be better (Mayasari, 2022).

Based on the results of the fifth hypothesis test (H5), results were obtained which showed a positive and significant relationship between the adoption of financial reporting standards and the performance of MSMEs. To support the growth of MSMEs, it is important to monitor their financial records. Information obtained from financial reports is very important for MSME actors so they can make the right decisions in improving their business performance (Dermawan, 2019).

Based on the analysis of mediation test data, it can be concluded that the adoption of financial reporting standards can be a link between financial inclusion and financial literacy on the performance of MSMEs (Silitonga et al., 2023). The results show that implementing applicable financial reporting standards properly and correctly will make it easier for MSMEs to make more accurate decisions in an effort to improve the performance of the MSMEs they run.

4. CONCLUSION

The results of data analysis show that financial literacy and financial inclusion of MSMEs can influence them to adopt accounting standards in the preparation of MSME financial statements. In addition, financial literacy, financial inclusion and the application of accounting standards in MSME financial reporting can affect MSME performance. Acceptance of accounting standards is also found as a mediator between financial literacy and MSME performance and between financial inclusion and MSME performance. This research can serve as a reference for SMEs to enhance their financial performance by providing valuable insights and recommendations. By analyzing the findings and recommendations of this research, SMEs can identify areas of improvement in their financial management practices and implement strategies to optimize their financial performance. In summary, this research serves as a valuable reference for SMEs looking to enhance their financial performance, expand their business, and attract stakeholders' interest. By utilizing the insights and recommendations provided in this research, SME operators can make informed decisions and take proactive steps to optimize their financial management practices, drive growth, and secure the necessary capital for their business endeavors.

It can be concluded that the application of accounting standards is very important in the preparation of MSME financial statements. Financial statements that meet standards can be more

reliable and increase the confidence of potential investors in investing their capital. The performance of SMEs can also be improved thanks to the preparation of correct and standardized financial statements. In addition, strengthening financial literacy and financial inclusion is also one of the benchmarks for the sustainability of MSMEs in the future. In addition, MSMEs must also improve financial literacy and understand the concept of financial inclusion so that they can see the good and bad impacts of company decisions in using mandatory financial reporting standards. Good financial literacy and financial inclusion skills further affect the improvement of SME performance. This research is still limited by the size of the research sample. In order to improve the generalization ability of subsequent research, it can expand the research sample.

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