EFFECT OF FINANCIAL ACCESS ON MSME BUSINESS PERFORMANCE, THE MODERATING ROLE OF FINANCIAL LITERACY (STUDY ON YOUTH ENTREPRENEURIAL GROUP IN JAMBI CITY)

Erwita Dewi [1], Hendriyaldi [2], Feny Tialonawarmi [3]

[1,2,3] Department of Management Faculty of Economics and Business, Jambi University

Corresponding author: erwitadewi@unja.ac.id

Abstract

This study aims to determine the effect of financial access on business performance by testing the moderation effect of financial literacy on entrepreneurial youth groups in Jambi city. Using a survey research design, the questionnaire was distributed to 252 respondents. Hypothesis testing using PLS-SEM analysis tools with Smart PLS 2.0 software. The results of the study indicate that the entire hypothesis was accepted. This proves that financial access affects the business performance of MSMEs and financial literacy acts as a moderation variable.

Keywords: Financial Access, Business Performance, Financial Literacy, Moderating Variables

Introduction

The Minister of Cooperatives and SMEs, Teten Masduki stated that entrepreneurship is a strategic choice for millennial youth to do business because the number of entrepreneurs in Indonesia is only 3.47% still low compared to Thailand 4.26%, Malaysia 4.74% and Singapore which is already 8.76% (Sulaiman, 2021). Youth involvement in entrepreneurial development has been pioneered by the Ministry of Youth and Sports through the start-up young entrepreneur program /WMP (Deputy & Youth, 2014).

Young entrepreneurs in Jambi City facilitated by the Youth and Sports Office in 2020 gathered as many as 694 people with various types of businesses / businesses both in the service and production sectors, for example workshop service services, bridal makeup, computer rental and food and beverage production businesses with the beginning of starting a business varying from about 10 to 5 years ago (Batanghari, 2020).

The courage of young people to enter the business world does not escape from challenges and obstacles. Obstacles are a necessity but not a barrier to starting a business (Octavianus Bima, 2020). Various challenges faced by entrepreneurs, one that has a big impact on the development of the business or business that is being run is the source of capital (financing). The business factor that must be available before carrying out business activities is capital. The size of the capital will affect business development in achieving income (Riyanto, 2004). In business, the capital needed is in the form of determination, experience, courage, knowledge, networking and capital in the form of money. The main difficulty that hinders running a business is getting capital in the form of money. (Sari, 2014).

Limited access to finance, especially external finance, is the main obstacle to achieving the desired business performance (Fatoki, 2021), even in some MSMEs, limited access to funding sources or capital will cause business failure (Buchdadi et al., 2020). In addition to financial access, an important factor that affects business performance is knowledge of overall business finances (financial literacy). According to (Okello,Ntayi, 2017) financial literacy helps individuals to make wise financial decisions and choices,which improves access and use of financial services by SMEs. Effective implementations of financial literacy skills lead to improvement in business performance due to improved ability to track business events from the record system (Siekei, J , Juma & Kalio, & Aquilars, 2015).

This study aims to examine the effect of financial access, especially external finance, on business performance by paying attention to the moderation effect of financial lieration. This research was conducted on entrepreneurial youth groups in Jambi City. Several previous studies have been conducted to test the effect of financial access on performance ((Rita & Huruta, 2020),(Myint, 2020), (Fatoki, 2021)), and the effect of financial literacy on performance (Siekei, J, Juma & Kalio, & Aquilars, 2015), but not many have tested the effect of moderation from financial literacy on the relationship between financial access and MSME business performance. This is the basis for why this research was carried out.

Literature Review
Financial Access (FA) and Business Performance (BP)

There are many factors that affect the performance of MSMEs, both internal and external factors. The internal factors include aspects of human resources, production and operations, marketing, and finance, while the external factors include aspects of government policies and related institutions that can affect the performance improvement of SMEs. Research (Mbuva & Wachira, 2019) found that there is a positive relationship between performance and financial access. Likewise, research conducted by (Rita & Huruta, 2020), (Sibanda et al., 2018) found the positive relationship as well.
H1 : There is a significant influence of financial access on Business Performance

Financial Literacy (FL) and Business Performance (BP)

Research conducted by (Yakob et al., 2021) found that financial literacy has a significant positive influence on the performance of MSMEs. According to (Menike, 2019) financial literacy namely financial behavior,financial knowledge and financial influence impact positively on firm performance. Meanwhile,according to (Satiti, 2020) financial literacy has a positive and significant effect on the performance of Small and Medium Enterprises. Therefore, financial literacy of the business owner has an important role in business performance. financial literacy can help business actors to gain adequate financial knowledge and capabilities in preparing their business financial strategies and improving their business performance

H2 : There is a significant influence of financial literacy on Business Performance

Financial Literacy (FL) moderates relationship Of Financial Access (FA) and Business Performance (BP)

Previous research conducted by (Okello,Ntayi, 2017), reveal a positive and significant moderating effect of financial literacy in the relationship between access to finance and growth of SMEs in developing economies. In addition, financial literacy and access to finance also have significant and positive effects on growth of SMEs in developing economies.

H3 : There is a significant moderating effect of financial literacy on relationship between financial access and Business Performance

Methods

This research was conducted with the following stages:

1. Problem formulation, at this stage formulates the problem that will be used in the research topic, namely the influence of funding sources on the business performance of vegetable traders
2. Literature Study, which is conducting a literature study to obtain information both related to research topics from various sources, including journals, books and articles.
3. Model formulation and instrument drafting. The formulation of the research model uses the concept of financial management related to financial access, performance and financial literacy. Then the preparation of research instruments. This research instrument is a collection of closed ended questions.
4. Data collection is carried out by distributing questionnaires to respondents.
5. Data Processing and Analysis, using statistical methods in analyzing the data collected from the respondents. The statistical technique used is a multivariate Structural Equation Model (SEM) technique that is processed with the Smart-PLS 2.0 program
6. Conclusion drawing is carried out after conducting hypothesis testing and knowing the relationship between each variable. Conclusions are answers to research questions that have been asked that are in accordance with the results of hypothesis analysis and testing.

Population and Sample

The data source and instrument that will be used in this study are quantitative data using a simple random sampling method which is carried out by distributing questionnaires made by researchers by distributing them in hard copy form. This random sampling is intended so that the results of the study can be used as a measure to estimate the population, or make generalizations. The population of this study is the Entrepreneurial Youth group in Jambi City as many as 694 people. A number of samples will be taken by random sampling. The number of samples recommended in using the SEM technique, with the MLE estimation procedure using the slovin formula, the sample size obtained is 252 people so that it meets this assumption.

Data Collection Methods

The data collection carried out in this study used a questionnaire, where the questions asked already had answer choices with a likert scale. The likert scale is one of the most widely conducted scales in social research

Research Models, Variables, and Indicators

Based on the theory and findings of previous research results, a research model is proposed that directly shows the hypothesis proposed in this study. In addition, from the proposed research model, it can be seen that the effect of financial access on business performance is moderated by financial literacy.

This research model can be seen in Figure 1:
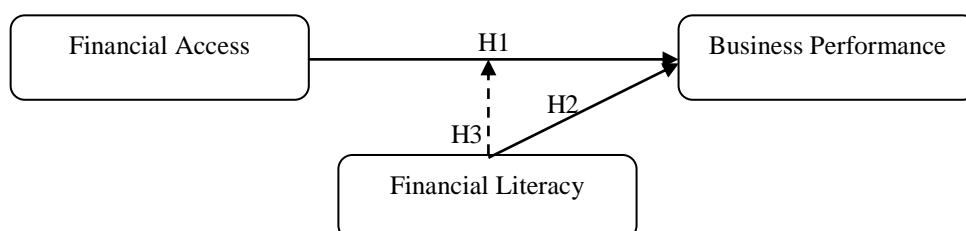
Figure 1. Research Model

The indicators of each variable are as follows:

1. Financial Access (FA) Variables
   a. access to longterm debt finance
   b. finance and other sources to expand decisions that influence the place and time to export
   c. access to credit as an obstacle to business and cash flow as well as
   d. payment risks that influence the decisions of the place and time to export
2. Variable Business Performance (BF)
   a. Profit Growth
   b. Sales growth
   c. Asset growth
3. Variable Financing Literacy (FL)
   a. prepare monthly company financial statement (income statement and balance sheet)
   b. review of monthly financial statements
   c. perform financial analysis on monthly financial statements
   d. an understanding of the company's gross profit ratio and its contribution to the overall profit

Questionnaire Testing The test of the validity and reliability of the questionnaire is carried out to measure the validity or reliability of a statement in the questionnaire that will be used in this study.

Data Analysis Method The method used to analyze the data is a statistical method with a multivariate SEM (Structural Equation Modeling) technique using the Smart PLS 2.0 application. SEM is the second generation of multivariate analysis techniques that allow researchers to test relationships between complex variables to obtain a comprehensive picture of a model. The data that has been obtained is then processed using the Microsoft Excel 2010 program and the SPSS 24.0 program. Furthermore, data processing and analysis with SEM implementation using Smart-PLS 2.0 application.

Result and Discusssion
Outer Model Test Results
Convergent Validity Test Results

Convergent validity is the correlation between indicator scores and constructs scores. The following is the result of the correlation between the indicators and their constructs:

Table 1. Outer Loading Value

	BP	FA	FL
BP1	0.810994		
BP2	0.915084		
BP3	0.856910		
FA1		0.671565	
FA2		0.696152	
FA3		0.647928	
FA4		0.537437	
FL1			0.946984
FL2			-0.497928
FL3			-0.097658
FL4			-0.233391

Table 2. Adjustment Of Outer Loading (2)

	BP	FA	FL
BP1	0.803257		
BP2	0.918100		
BP3	0.859675		
FA1		0.774206	
FA2		0.766978	
FA3		0.539545	
FL1			1.000000

Table 3. Adjustment Of Outer Loading (2)

	BP	FA	FL
BP1	0.802220		
BP2	0.917623		
BP3	0.861161		
FA1		0.861608	
FA2		0.840310	
FL1			1.000000

Table 3 shows that the outer loading value of all statement items for all variables is greater than 0.7. Thus, the statement items for all variables are valid.

Table 4. Average Variance Extracted (AVE) Value

	AVE
BP	0.742396
FA	0.724244
FL	1.000000

Table 4 shows that the AVE value for all variables is more significant than 0.5. Based on the Outer Loading and AVE values, this research data has met the requirements of Convergent Validity.

Discriminant Validity Test Results

The discriminant validity test measured the cross-loading values. The value of cross loading in the model is as follows

Table 5. Cross Loading Value

	BP	FA	FL
BP1	0.802220	0.194295	0.310056
BP2	0.917623	0.248920	0.506167
BP3	0.861161	0.150158	0.404514
FA1	0.205020	0.861608	0.137197
FA2	0.191966	0.840310	0.154476
FL1	0.485327	0.170975	1.000000

Table 5 shows the cross-loading value of all indicators exceeding the value of 0.7. Hence, the statement items for each variable have met discriminant validity.

Reliability Test Results

The composite reliability value of each variable is as follows

Table 6. Composite Reliability Value

BP	0.896049
FA	0.840051
FL	1.000000

Inner Model Test Results

The evaluation of the inner model or structural model test measure the direct and indirect effects between variables. The next table presented the R-Square values.

Table 7: R Squared Value

BP	0.258854
FA	
FL	

Table 7 showed that the R-squared value of Business Performance variable is 0.258. It indicated that the Financial Access and Financial Literacy variable can affect the Business Performance variable by 25,8%. On the other hand, the remaining 74.2% can be defined by other variables outside the model.

The goodness of Fit Rating

Based on the calculation results, the Q2 value of 0.67 means that the diversity of the data can be explained by the structural model developed in this study, which is 67%. This result indicates that the structural model in this study has good goodness of fit.

Further evaluation of the inner model was done by looking at the path diagram showing the significance of the independent variable to the dependent variable. Figure 2 shows a path diagram of the model.
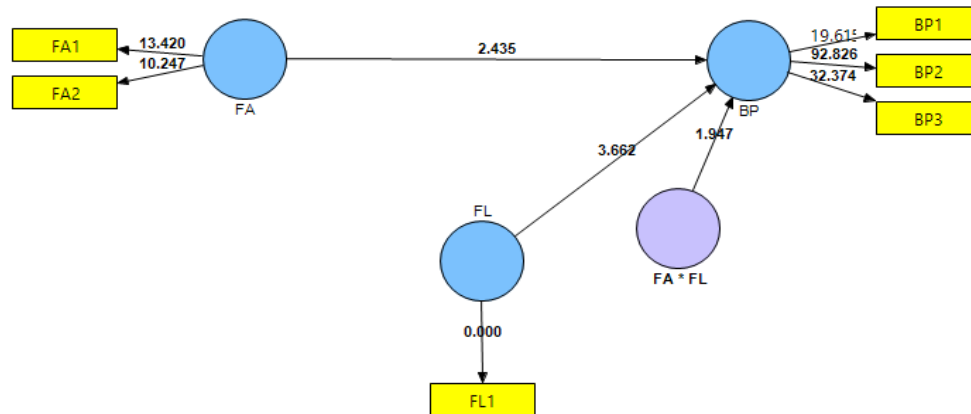
Figure 2. Path Diagram

Following table are the results of the hypotheses test:

Table 8. Hypotheses Test Results by PLS-SEM

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)	T Table	
FA -> BP	0.627426	0.559590	0.257619	0.257619	2.435482	1.66	Sig
FA * FL -> BP	-0.802444	-0.691388	0.412105	0.412105	1.947184	1.66	Sig
FL -> BP	1.022958	0.950338	0.279314	0.279314	3.662386	1.66	Sig

Table 8 shows the t-statistical values and t-table values that later will be compared. First, the variable of Financial Access on Business Performance has a positive coefficient sign. The t-statistic value is 2.435 > the t-table value is 1.66, Thus, H_1 is accepted. It can be concluded that FA has a positive and significant impact on BP.

Second, Financial Literacy on Business Performance has a positive coefficient sign. The t-statistic value is 3.662 > the t-table value is 1.66, Thus, H_2 is accepted. The results showed that FL has a positive and significant impact on BP.

Third, Financial Access on Business Performance Moderated by Financial Literacy has a negative coefficient sign. The t-statistic value is 1,947 > the t-table value is 1.66, Thus, H_3 is also accepted. The data showed that FA has a negative and significant impact on BP Moderated by FL.

Discussions

The findings of the study showed a significant positive relationship between financial access and business performance of MSME.Hypothesis one of the study is supported. The results support a positive relationship between financial access and business performance of MSME. This is especially important because many MSME are unable to secure adequate debt finance to fund projects with positive present values. An efficient investment can only be achieved only when a firm does not face credit obstacles. In addition, access to equity capital is also limited for MSME and the availability of debt finance is important to finance growth-enhancing projects. The findings are consistent with the results of previous empirical studies by (Mbuva & Wachira, 2019),(Rita & Huruta, 2020) and (Sibanda et al., 2018).

The findings of the study also showed a significant positive relationship between financial literacy and business performance of MSME.Hypothesis two of the study is supported. The findings are consistent with the results of previous empirical studies. According to (Satiti, 2020) financial literacy has a positive and significant effect on the performance of Small and Medium Enterprises. Therefore, financial literacy of the business owner has an important role in business performance. financial literacy can help business actors to gain adequate financial knowledge and capabilities in preparing their business financial strategies and improving their business performance.

The last finding of the study showed a significant negative relationship between financial access and business performance of MSME moderated by financial literacy.Hypothesis three of the study is supported. Previous studies (Okello,Ntayi, 2017) found that financial literacy enhances the access to finance and performance relationship of small businesses. Financial literacy enables the effective conversion of access to finance into improved performance. The results of the previous study also reveal a significantly positive moderating effect of financial literacy in the relationship between access to finance and growth.The application of financial knowledge and skills can help MSME to obtain financial resources which leads to improved performance.

Conclusions and Sugggestions

The results of this study have drawn into some conclusion, as follow: First, Financial access relate to business performance significant positively. Second, Fnancial literacy relate to business performance significant positively. Finally, third, Financial access negatively affects business performance moderated by financial literacy. It means that sufficient financial literacy of MSME will cause failure of using access to finance for enhancing their business performance.In order to increase business performance, MSME in Jambi City (especially Youth Entrepreneurial Group) have to increase their knowledge,experience and attitude about financial literacy.

References

Batanghari, M. (2020). *DATA ON YOUNG ENTREPRENEURS IN JAMBI CITY IN 2020*. *1*.

Buchdadi, A. D., Sholeha, A., Ahmad, G. N., & Mukson. (2020). the Influence of Financial Literacy on Smes Performance Through Access To Finance and Financial Risk Attitude As Mediation Variables. *Academy of Accounting and Financial Studies Journal*, *24*(5), 1–16.

Deputy, A., & Youth, K. (2014). *Programs and Performance Indicators Th 2014*.

Fatoki, O. (2021). Access to finance and performance of small firms in South Africa: The moderating effect of financial literacy. *WSEAS Transactions on Business and Economics*, *18*, 78–87. https://doi.org/10.37394/23207.2021.18.9

Mbuva, M. D., & Wachira, K. (2019). Effect of Access To Finance on Financial Perfomance of Processing Smes in Kitui County, Kenya. *International Journal of Finance and Accounting*, *4*(1), 75. https://doi.org/10.47604/ijfa.896

Myint, D. O. M. (2020). The Effect of Financial Access on Performance of SMEs in Myanmar. *International Journal of Scientific and Research Publications (IJSRP)*, *10*(06), 244–254. https://doi.org/10.29322/ijsrp.10.06.2020.p10230

Octavianus Bima. (2020). *Young People Are More Courageous to Answer Challenges, Let's Become Young Entrepreneurs!* Typeunpad. https://ketik.unpad.ac.id/posts/698/anak-muda-makin-berani-jawab-tantangan-ayo-jadi-wirausaha-muda

Okello,Ntayi, et al. (2017). The relationship between access to finance and growth of SMEs in developing economies: financial literacy as a moderator Abstract. *Review of International Business and Strategy*, *26*(1). file:///F:/ARTICULOS/wang2018 (2).pdf

Rita, M. R., & Huruta, A. D. (2020). Financing access and SME performance: A case study from batik SME in Indonesia. *International Journal of Innovation, Creativity and Change*, *12*(12), 203–224.

Riyanto, B. (2004). *Corporate Spending Basics* (4th ed.). BPFE Yogyakarta.

Sari, desi nopita. (2014). Influence of Entrepreneurship Characteristics, Business Capital and the Role of Business Developement Service on Business Development (Study on the Cracker Industry SEntra of Kedungrejo Sidoarjo Village, East Java). *Journal of Business Administration*, *024*, 1–10.

Sibanda, K., Hove-Sibanda, P., & Shava, H. (2018). The impact of SME access to finance and performance on exporting behaviour at firm level: A case of furniture manufacturing SMEs in Zimbabwe. *Acta Commercii*, *18*(1). https://doi.org/10.4102/ac.v18i1.554

Siekei, J , Juma, W., & Kalio, & Aquilars, K. (2015). *An Assessment of the role of financial literacy on Performance of Small and Micro Enterprises: Case of Equity Group Foundation Training Program on SMES in Njoro district, Kenya*. *January 2013*.

Solomon. (2021). *Menkop Teten: Indonesian Entrepreneurs Are Inferior to Thailand and Malaysia*. Merdeka.Com. https://www.merdeka.com/uang/menkop-teten-wirausaha-indonesia-kalah-dibanding-thailand-dan-malaysia.html

Yakob, S., Yakob, R., B.A.M, H.-S., & Ahmad Rusli, R. Z. (2021). Financial Literacy and Financial Performance of Small and Medium-sized Enterprises. *The South East Asian Journal of Management*, *15*(1), 72–96. https://doi.org/10.21002/seam.v15i1.13117