

# Analysis of The Financial Performance of Msmes in The Culinary Sector with The Influence of Financial Literacy and The Use of Financial Technology in The City of Medan

Siti Mujiatun<sup>1</sup>

University Muhammadiyah Sumatera Utara<sup>1</sup>  
Correspondence Email: [sitimujiatun@umsu.ac.id](mailto:sitimujiatun@umsu.ac.id)

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## ABSTRACT

Understanding financial literacy is crucial in overcoming financial challenges for MSME actors, to manage finances effectively and make decisions based on accurate financial information. Financial literacy has an influence and impact on the financial performance of MSMEs, in addition to financial literacy, the application of *financial technology* (Fintech) is also an important factor in improving the financial performance of MSMEs. This study aims to evaluate whether financial literacy and the use of financial technology affect the financial performance of MSMEs in the culinary sector in Medan City. The method used is quantitative descriptive, with primary and secondary data as sources of information. Primary data was obtained by distributing questionnaires to respondents (MSMEs in the culinary sector). The method used is *Structural Equation Modelling* (SEM) based on *Partial Least Square* (PLS) using SEM PLS 4. The results of the study show that: (1) financial literacy has a non-positive and insignificant influence on the financial performance of MSMEs in the culinary sector of MSMEs in Medan City, and (2) The use of *financial technology* also has no positive and insignificant effect on the financial performance of MSMEs in the culinary sector in Medan City.

**Keywords:** Financial Literacy, *financial technology*, MSME Financial Performance

## **INTRODUCTION**

Micro, Small and Medium Enterprises (MSMEs) play an important role in the Indonesian economy, especially in the culinary sector, which has proven to be the backbone of the national economy. As a driving force for economic growth, MSMEs make a significant contribution in creating jobs and improving the welfare of the community (Faizah, 2019) and (Aristika & Hartono, 2020). However, the main challenge faced by MSMEs is a lack of understanding of the financial performance of companies, which can hinder the ability to make informed business decisions. Understanding Financial Literacy is crucial in overcoming these challenges, because Financial Literacy allows MSME actors to manage finances effectively and make decisions based on accurate financial information. Previous research shows that Financial Literacy has a positive and significant influence on the financial performance of MSMEs. In addition to Financial Literacy, the application of (Lia et al., 2015) (Darmawan et al., 2021) (Darmawan et al., 2021) *Financial Technology* (Fintech) is also an important factor in improving the financial performance of MSMEs. (Astari & Candraningrat, 2022)

*Financial Technology* has provided easy access to finance for MSMEs, from obtaining capital to managing financial transactions efficiently. Research shows that Fintech has a positive and significant impact on the financial performance of MSMEs. The development of MSMEs and the implementation of Financial Literacy and Fintech not only have a positive impact on the local level, but also at the national level. (Astari & Candraningrat, 2022)

Based on the phenomenon of problems for MSME actors, especially in the culinary sector in the city of Medan, there are several problems found, namely, sales and turnover obtained fluctuate, capital in running a business is relatively minimal or inadequate and business development is not as expected. With the above phenomenon, good financial cooperation is needed in making MSME decisions in the future. MSMEs must be able to optimize their financial performance well will help increase overall economic growth. Thus, continuous support from the government and related institutions is very important in strengthening MSMEs and improving financial literacy and financial technology throughout Indonesia. This journal wants to see the influence of financial literacy and the use of (Rahayu & Musdholifah, 2017) *financial technology* on the financial performance of MSMEs in the culinary sector in the city of Medan.

## **LITERATURE REVIEW**

Financial literacy is knowledge, skills, and beliefs, which influence attitudes and behaviors to improve the quality of decision-making and financial management in order to achieve prosperity. Financial literacy has a very important role where the higher the measure of financial understanding, the higher the financial results that will be achieved by entrepreneurs because the success of a business is related to the ability of business actors in a skill. (Kusuma, 2020) (Rosliyati & Iskandar, 2022)

According to Sabana & Gathungu, financial literacy will improve the ability of MSME management to make decisions including financial plans, cash flow management and reliable financial reports (Astari & Candraningrat, 2022). Financial literacy is crucial in the formation of financial decisions (personal and business) by MSME owners. Financial literacy helps a person to improve a person's level of understanding to deal with financial problems, which makes it possible to process financial information and then make the right decisions

for their finances. Therefore, it is important for business actors to understand how financial literacy affects financial performance, with good financial literacy, the management of MSME financial performance will also be good. (Alamsyah, 2020) Because Micro, Small and Medium Enterprises (MSMEs) have an important role in a country's economy, including Indonesia. MSMEs are the backbone of the economy with their contribution to economic growth, job creation and improving community welfare (Afandi et al., 2023).

When a person has a high level of financial literacy, it means that he knows various kinds of knowledge about finance, such as interest, inflation, fraud and so on which can be called risk in terms of finance. In addition, knowing other things that you feel have benefits for your finances, such as saving at the bank is safer than saving yourself at home. So that with this a person can use financial literacy to make decisions in choosing products or financial services available. The development of fintech services is so innovative and varied, such as crowdfunding, mobile payments, and money transfer services, causing a revolution in the startup business. With crowdfunding, you can get funds from all over the world easily, even from people you have never met, even though fintech also allows global or international money transfers. (Rahmayati, 2021). *Fintech* is defined as an innovation step in financial services, in the sense that fintech is an innovation in the financial sector combined with a touch of technology. (Winarto, 2020) *Fintech* provides various financial solutions, especially for MSMEs that want to grow. The development of Islamic financial institutions in Indonesia from year to year continues to experience a significant increase.

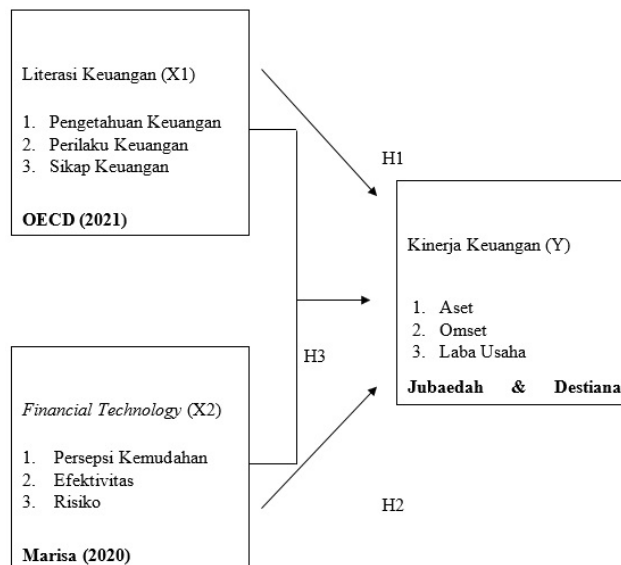
(Wahyuni et al., 2023) (Pradesyah et al., 2024). *Fintech* is here to be an alternative that can help MSMEs in providing adequate financial services, because *Fintech* can make it easier to run a business such as *payment gateways* or online payments that can attract consumers to take advantage of the services offered, such as *cashback*, discounts or other promos. In addition, MSMEs can also take advantage of *fintech* to get access to products or various financial services anywhere easily. (Hijir, 2022)

*Fintech* is a rapidly evolving financial technology and can affect the way MSMEs manage their finances. Fintech has increased MSMEs' access to financial services that were previously difficult to reach. For example, an online loan platform so that it can reduce capital problems. Digital payment apps provide access to financing and financial transactions. Fintech provides tools and platforms that assist MSMEs in financial management, such as real-time financial analysis, cash planning, and inventory management. This can help MSMEs make better decisions about resource allocation and financial strategies. A new model has been developed based on earlier research; nonetheless, the model has a number of shortcomings. Future plans for this project include creating more connections and learning more about the sharia fintech paradigm (Mujiatun et al., 2022).

The relationship to financial performance is that the use of financial services and products will later be one of the main keys in creating a financial performance system that grows sustainably and stably which will ultimately contribute or contribute to improving the welfare of the community (Soetiono & Setiawan, 2018).

### Conceptual Framework

The conceptual framework can be seen from the image below:



**Figure 1. Conceptual Framework**

### Hypothesis

According to Sugiyono (2013) Hypothesis is a provisional answer to the formulation of the research problem, where the formulation of the research problem has been stated in the form of a question sentence. It is said that temporarily, because the answers given are only based on relevant theories, they are not yet based on empirical facts obtained through data collection. So the hypothesis can also be stated as a theoretical answer to the formulation of the research problem, not an empirical answer. Based on the above framework of thinking, the hypothesis in this study is as follows:

1. **H1:** There is a positive and significant influence of financial literacy on the financial performance of MSMEs in the culinary sector in Medan City
2. **H2:** There is a positive and significant influence of *Financial Technology* on the financial performance of MSMEs in the culinary sector in Medan City.

## RESEARCH METHODS

### Population

Population is a generalization area consisting of objects or subjects that have certain quantities and characteristics that are applied by researchers to study and then draw conclusions (Sugiyono, 2021). The number of MSME populations in the culinary sector is 675 MSMEs in the city of Medan.

### Sample

The sample is part of the number and characteristics possessed by the population (Sugiyono, 2021). This study uses the Slovin formula because in this sample withdrawal the amount must be *representative* in order for the results of the research to be generalized and the calculation does not require a table of sample numbers, but can be done with simple formulas and calculations. The Slovin formula for determining the number of samples is as follows:

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

Information:

N = Population

e = 10% (error rate)

n = Number of samples taken

So:

$$n = \frac{675}{1 + 675 (0,1^2)} = \frac{675}{1 + 6,75} = \frac{675}{7,75} = 87,1 = 87$$

So based on the results of the calculation above, samples can be taken from the population of 87 MSMEs in the culinary sector in Medan City. The sampling technique uses *the Non-Probability Sampling* method using *purposive sampling*, so the samples taken must meet the following criteria:

1. Have been trying for more than two years
2. Using *Financial technology products*
3. Location of MSMEs in Medan City.

### Research Instruments

A research instrument is a tool used to measure observed natural and social phenomena. Specifically, this phenomenon is called a research variable (Sugiyono, 2011). The research instrument is used to measure the value of the variables to be studied. The number of instruments used depends on the number of variables being studied. Research instruments are used to make measurements that aim to produce precise and accurate quantitative data, so each instrument must have a clear scale. The instrument in this study uses a questionnaire given to respondents who are MSME actors in Medan City which is distributed containing a series of statements related to the problems in the research. The form of question list/questionnaire used is a structured questionnaire (questionnaire) in the form of closed answers where each statement has a variety of alternative answers. The scale used in this study is the Likert scale, where the measured variable is converted into a subvariable and then converted back into a variable indicator and described as a descriptor.

### Variable Operations

Operational variables are a complete set of instructions about what to observe and measure a variable or concept to test for perfection. The operational definition of variables is found in the items outlined in the research instruments (Sugiyono, 2011).

In this study, the researcher elaborated on the research variables and formulated items as indicators that will form questions and statements in the questionnaire later. The operational formulation of variables can be seen in the table below:

**Table 1. Variable Operations**

It	Variable	Dimension	Indicators
1.	Financial Literacy	1. Financial Knowledge	1. Have basic financial knowledge 2. Know the procedures for financial management 3. Be able to understand the benefits of financial management
	According to the OECD (2021)	2. Financial Behavior	1. Make financial plans for the future. 2. Make cash opening out – in per day/month/year

		3. Financial Attitude	3. Can manage finances effectively 1. Risk-taking attitude in decision-making 2. Making future target <i>planning</i> 3. Analyze financial performance regularly
		1. Perception of Convenience	1. The technology can be easily learned 2. Very easy to operate
		2. Effectiveness	1. The use of the system provides advantages/benefits 2. The use of the system can increase the effectiveness of performance
2.	<i>Financial Technology</i>  According to Marisa (2020)	3. Risk	1. The use of the system is able to minimize the problems (risks) that may occur 2. Have the ability to deal with risks that may occur in the use of the system
3.	Financial Performance  According to Jubaedah & Destiana (2016)	1. Assets	1. Increase in the number of assets 2. Efficient assets to generate revenue
		2. Sales Turnover	1. There is sales growth 2. Achievement of targeted turnover
		3. Business Profit	1. Business profits have increased 2. Have the ability to invest

Source : Research Processing Data, 2024

## RESULTS

### Structural Model Design

The structural design model in SEM PLS and its manifest variables are as follows: 1) Exogenous latent variable Financial Literacy (X1) has 9 manifests (indicators), 2) Exogenous latent variable *Financial Technology* (X2) has 6 manifest variables (indicators), and 3) Endogenous latent variables Financial Performance (Y) has 6 manifest variables (indicators). Then the endogenous and exogenous variables along with the manifest variables (indicators) used were analyzed outside the model which aimed to ensure *measurement* which is used as a measurement (valid and reliable), by looking at the outer model with several measurement indicators, namely *Convergent validity* and *Discriminant validity*.

### Outer Model Analysis

This model technique specifies the relationship between latent variables and their indicators. Or it can be said that the outer model defines how each indicator relates to its latent variable. Tests performed on the outer model:

#### a. Construct Reliability and Validity

Construct Reliability and Validity is a test to measure the reliability of a construct. The reliability of a construct must be quite high. The Composite Reliability criterion is > 0.6 (Juliandi, 2018).

**Table 2. Composite Reliability Results**

Variable	AVE
Financial Literacy (X <sub>1</sub> )	0,337
<i>Financial Technology</i> (X <sub>2</sub> )	0,678
Financial Performance (Y)	0,491

Thus, it can be concluded based on the values in table 2. *Composite Reliability* test is

as follows:

1. Variable<sub>X1</sub> (Financial Literacy) is unreliable, because the Composite *Reliability* value X1 is  $0.337 > 0.6$
2. Variable X2 (*Financial Technology*) is reliable, because the Composite *Reliability* value X2 is  $0.678 > 0.6$ .
3. The Y variable (Financial Performance) is not reliable, because the Composite *Reliability* Y value is  $0.491 > 0.6$

#### b. Discriminant Validity

Discriminant Validity is the extent to which a construct is completely different from another construct (constructs are unique). To measure the validity of discrimination on the SmartPLS website, the best measurement is to look at the value of the Heretroit-Monotraid Ratio (HTMT). If the HTMT value  $< 0.90$  then a construct has good discriminatory validity.

**Table 3. Output Discriminant Validity**

Variable	Financial Literacy (X1)	Financial Technology (X2)	Financial Performance (Y)
Financial Literacy (X <sub>1</sub> )		1.722	1.848
Financial Technology (X <sub>2</sub> )			
Financial Performance (Y)		1.162	

Thus, it can be concluded based on the values in table 3, the *Heretroit-Monotraid Ratio* (HTMT) test is as follows:

1. The variable X<sub>1</sub> (Financial Literacy) to X<sub>2</sub> (*Financial Technology*) has a *Heretroit-Monotraid Ratio* value of  $1.722 > 0.90$ , meaning that the validity of discrimination is not good or not completely different from other constructs (constructs are not unique).
2. The variable Y (Financial Performance) to X<sub>2</sub> (*Financial Technology*) has a *Heretroit-Monotraid Ratio* value of  $1.162 > 0.90$ , meaning that the validity of discrimination is not good or not completely different from other constructs (constructs are not unique).
3. Variable X<sub>1</sub> (Financial Literacy) to Y (Financial Performance) has a *Heretroit-Monotraid Ratio* value of  $1.848 > 0.90$ , meaning that the validity of discrimination is not good or not completely different from other constructs (constructs are not unique).

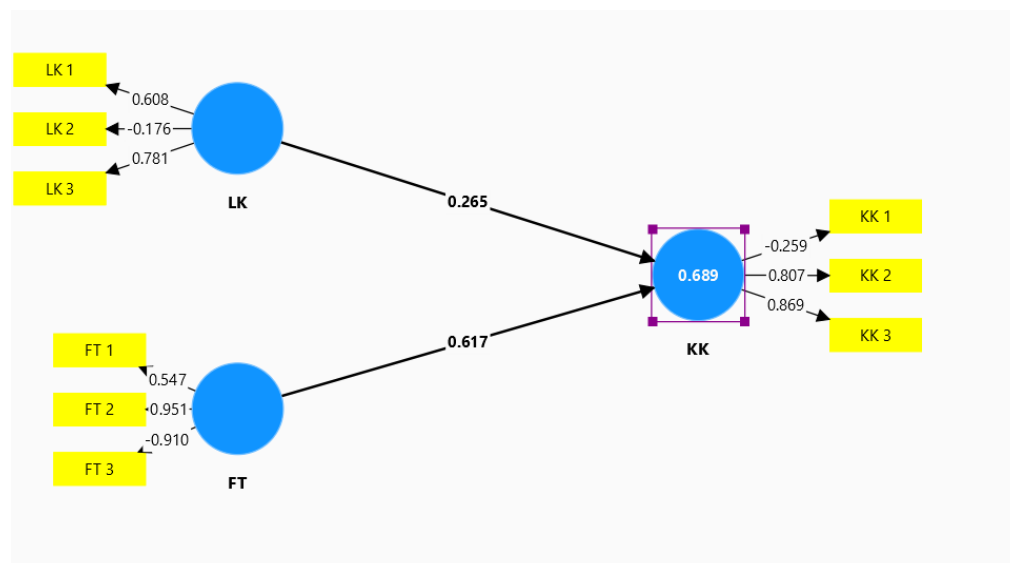


Figure 2. Output Model (Loading Factor) Research Model

## DISCUSSION

### The Effect of Financial Literacy on Financial Performance

The results of the study showed that the financial literacy variable had a *Heretroid-Monotraid Ratio value* of  $1.848 > 0.90$ . This proves that financial literacy has no effect on financial performance. So with this result, the first hypothesis in this study which reads "There is a positive and significant influence of financial literacy on the Financial Performance of MSMEs in the Culinary Sector in the City of Medan", then judging from the hypothesis testing, it can be concluded that there is no effect. Good financial literacy can be seen from MSMEs that have financial knowledge, financial behavior, and good financial attitudes, which will have an impact on improving the financial performance of MSMEs themselves. Financial literacy affects financial performance because a good understanding of financial literacy will improve the management of business performance so that it can improve financial performance in the business. The application of financial literacy will help business people in identifying and responding to changes in the economy and business climate, business people will also be able to make decisions and create innovative solutions in order to improve the financial performance and business sustainability of MSMEs (Aribawa, 2016).

### The Influence of *Financial Technology* on Financial Performance

The results of the research carried out showed that the *financial technology variable* had a *Heretroid-Monotraid Ratio value* of  $1.162 > 0.90$ . This proves that *financial technology* has no effect on financial performance. So with this result, the second hypothesis in this study which reads "There is a positive and significant influence of *Financial Technology* on the Financial Performance of MSMEs in the Culinary Sector in the City of Medan", then judging from the results of the hypothesis test, there is no influence (no effect)

*Financial Technology* is a rapidly evolving financial technology and can influence the way MSMEs manage their finances. *Financial Technology* provides various financial solutions for MSMEs who want to develop, *fintech* is here to be an alternative that can help MSMEs in financial services, such as *payment gateways* or online loans. The relationship to financial performance is that the use of financial services and products will later be one



of the main keys in creating a financial performance system that grows sustainably and stably which will ultimately contribute to improving welfare (Soetiono & Setiawan, 2018). It can be concluded that the higher a person's *financial technology*, the better the financial performance of their business. The right method and ease of access in using assistance and financing products can make it easier for MSME actors to achieve better financial performance.

### CONCLUSION

Based on the results of research and discussion on MSMEs in the Culinary Sector in Medan City regarding "Analysis of the Financial Performance of MSMEs in the Culinary Sector with the Influence of Financial Literacy and the Use of *Financial Technology* in the City of Medan", the following conclusions can be drawn:

1. The research conducted shows that financial literacy, *financial technology* and financial performance in MSMEs in the culinary sector in Medan City as a whole have not been effective and have not been implemented properly, so that the results obtained are beyond expectations.
2. Partially, financial literacy is seen from the results of data processing, it is stated that it does not have a positive and significant effect on the financial performance of MSMEs in the culinary sector in Medan City.
3. Simultaneously, *financial technology* was declared to have no positive and insignificant effect on the financial performance of MSMEs in the culinary sector in Medan City.

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