

## Review of financial literacy on MSME performance in improving the quality of financial reports

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### Abstract

In order to improve the quality of reliable financial reporting, this study attempts to investigate the relationship between MSME performance and financial literacy. This study used a descriptive qualitative approach and a systematic literature review to analyze a total of 25 journals and used data from publications available on Google Scholar. The study's findings demonstrate the substantial impact that financial literacy has on MSMEs' performance since an MSME's performance increases with its owners' level of financial literacy awareness. Previous studies have reached mixed conclusions about the impact of financial literacy on the quality of financial reports. Some found significant effects, while others found no effects at all.

Keywords: Financial Literacy, MSME Performance, Quality of Financial Reports.

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### INTRODUCTION

Based on PP Number 7 of 2021, the government defines micro businesses as productive businesses carried out by a number of individuals or individual entities that meet the micro business criteria stated in this Government Regulation. A small business is an independent and productive business carried out by any person or company that is not a subsidiary or branch of a company that we own, control, whether directly or indirectly are part of. Medium businesses are productive economic activities carried out by companies or individuals, these entities are not subsidiaries, branches or other businesses of companies that are directly or indirectly owned or controlled by small businesses or large businesses.

MSMEs are categorized according to business capital standards and annual sales results. The company's capital standards are as follows: a. Maximum micro business capital is Rp. 1,000,000,000 (Rp. 1 billion), this amount does not include the land and buildings where the company is located. b. Small businesses have business capital exceeding Rp. 1,000,000,000 (Rp. 1 billion) to Rp. 5,000,000,000 (Rp. 5 billion), not including the land and buildings where the company is located. c. Medium businesses have business capital exceeding Rp. 5,000,000,000 (Rp. 5 billion) to Rp. 10,000,000,000 (Rp. 10 billion), not including the land and buildings where the company is located. Annual sales results are: a. The annual income of micro businesses reaches Rp. 2,000,000,000 (Rp. 2 billion). b. The annual income of small businesses reaches Rp. 2,000,000,000 (Rp. 2 billion) up to a maximum of Rp. 15,000,000,000 (Rp. 15 billion). Medium companies have annual income reaching Rp. 15,000,000,000 (Rp. 15 billion) to Rp. 50,000,000,000 (Rp. 50 billion). (Pemerintah Indonesia, 2021)

In Indonesia, MSMEs are a very important element to support the economic growth and development of a country. MSMEs have the capacity to encourage fairer and more equitable economic growth(Bidasari et al., 2023). And also, MSMEs can absorb labor, thereby reducing unemployment, increasing gross domestic product, and providing a safety net for low-income people.(Pakpahan,

2021)Based on the official website of the Ministry of Communication and Information of the Republic of Indonesia (Kominfo), the MSME sector can absorb up to 97% of the national workforce and contribute 61% to PBD(Khoirot et al., 2023)

The Indonesian government has realized how important small and medium enterprises (MSMEs) are for economic growth and development and has taken various steps to support their growth and development.(Hendrawan et al., 2023). The skills and abilities of MSMEs are not kept up with current developments, especially the ability to make good financial reports. This is because MSME managers do not realize how important good financial management is in running their business(Vikaliana et al., 2021). So that the performance of MSMEs runs well and there is no fraud, it is very important for them to have good financial management(Taufiq et al., 2020).

MSMEs often experience delays, this is caused by various traditional problems that have not been resolved to completion, including: such as problems with human resource capacity, ownership, funding, promotion of goods, and various other problems related to governance. companies, making it difficult for MSMEs to compete with superior companies(Kasendah & Wijayangka, 2019). Therefore, strategic steps are needed to improve the performance and sustainability of MSMEs. One effort to do this is to increase the understanding of financial literacy of MSME players so that they can be more responsible in financial management.(Aribawa, 2016).

One way to expand financial management knowledge is through financial knowledge. Financial literacy is knowledge about money and financial products that can be applied by individuals in making financial decisions so they can take the right steps in managing their finances.(Idawati & Pratama, 2020). The low understanding of financial literacy among MSME managers is not only a current problem, but also a problem for society in the future because it has a negative impact on financial behavior.(Rosa et al., 2022).

The problem encountered by MSMEs is the lack of product diversity because the products produced are still limited to these products. In other words, minimal product variety to increase competition. Apart from that, traditional financial methods are still used, plus there is insufficient capital and poor financial reports(Atmaja et al., 2021). MSMEs still face many accounting and financial reporting challenges. For example, in the case of capital that is difficult to access when calculating COGS, determining the actual amount of profit earned, or determining the amount of tax that needs to be reported. This can be caused by the lack of understanding and skills of economic actors in compiling and reporting financial records(Novitasari & Redyanita, 2022). In addition, previous research shows that the main problems and obstacles for MSMEs are difficulties in accessing finance, accessing markets, policy support, and entrepreneurial culture, this has a significant impact on people's financial literacy.(Rasjid, 2022)

Based on the problems discussed above and several arguments put forward from previous research, the aim of this research is to identify the relationship between financial literacy and the performance of MSMEs in order to improve the quality of financial reports.

## LITERATURE REVIEW

### Financial Literacy

Based on Financial Services Authority Regulation (POJK) no. 76/POJK. 07/2016, financial literacy is knowledge, skills, and beliefs in financial management that influence a person's attitudes and behavior, the quality of decision making, and the achievement of prosperity. It means. Financial literacy includes knowledge of financial concepts, the ability to understand communication about financial concepts, personal/corporate financial management skills, and the ability to make financial decisions in certain situations (Aribawa, 2016)

The aim of financial literacy is to educate people about finances so they can manage their finances effectively. This means that people are expected to not only understand finance and the products it offers, but also change behavioral patterns in financial management to improve their welfare(Afifah & Triyanto, 2023)

### **MSME performance**

The level of success of individuals in achieving what they have done is called MSME performance, this is shown by sales, capital, number of employees, sales, market share and profits which continue to increase(Novitasari & Redyanita, 2022)

To provide quality services, MSMEs must be good at managing company finances. Realizing successful MSMEs requires quality human resources. Developing small and medium enterprises (MSMEs) also requires marketing strategies that are successful, innovative and creative and lead to strong business performance(Bidasari et al., 2023)

### **Quality of Financial Reports**

Financial reports form the results of a company's daily business activities to provide financial information that is useful for internal and external purposes of the company(Oktaviranti & Alamsyah, 2023)

High-quality financial reports help decision-making by stakeholders involved in economic activities. The reason for conducting financial reports is to present various information related to finances, financial performance and cash flow reports. Financial reports help many users in making financial decisions regarding financial reports. Therefore, financial reports can be said to be a source of information for taking steps. In addition, financial reports state management's responsibility for the resources provided(Pakpahan, 2020)

## **METHODS**

This research uses a qualitative descriptive method with a systematic literature review, using journal data published on Google Scholar, and reviewing a total of 25 journals. The systematic literature review method or what is called the systematic literature review research method is a research method that analyzes, evaluates and interprets existing questions regarding a discussion that must be resolved and responds to the research questions asked(Sari et al., 2022)

## **RESULTS AND DISCUSSIONS**

### **THE INFLUENCE OF FINANCIAL LITERACY ON MSME PERFORMANCE**

According to (Idawati & Pratama, 2020), financial literacy has a positive impact on the performance of MSMEs. The increasing financial literacy of MSME owners or managers will result in better performance of these MSMEs. According to (Sanistasya et al., 2019), entrepreneurs who are financially literate can gain the financial knowledge and abilities needed to make business plans, financial plans and strategic investment decisions. (Aribawa, 2016), companies with superior financial understanding are able to determine and respond to innovations in the business, economic and financial environment strategically, and are able to innovate to improve business performance and sustainability, and can make decisions that are right on target.

According to (Ilarrahmah & Susanti, 2021), financial literacy helps business people evaluate a company's past finances and plan long-term financial steps in the future. According to (Alamsyah, 2020), financial literacy helps increase your understanding of how to handle financial problems and allows you to process and analyze financial information to make the right personal financial

decisions. Financial literacy is reliable and can contribute positively to improving the performance of MSMEs (Bidasari et al., 2023).

## **THE INFLUENCE OF FINANCIAL LITERACY ON THE QUALITY OF FINANCIAL REPORTS**

According to (Fitriani et al., 2022), this research found that more or less financial literacy indicators such as understanding, ability and confidence regarding the quality of financial reports have an important influence on the quality of financial reports. This is contrary to research (Oktaviranti & Alamsyah, 2023) which states that financial literacy is an individual's knowledge about financial management. People who are strong in finance are not necessarily good at making financial reports. Because producing quality financial reports also requires regular financial report writing training. This research is supported by (Bahiu et al., 2021). This means that financial literacy does not have a significant impact on the quality of financial reports. This difference is caused because in previous studies the methods such as variable measurement and work theory were not clear, whereas in this study the interactions between variables were analyzed using stewardship theory which comes from accounting theory. We conclude that working theory is used. Stewardship theory emphasizes that the quality of financial reports is achieved when managers act as stewards and do not create conflicts of interest based on psychological and sociological aspects in an effort to achieve organizational goals (Sanjaya et al., 2017).

According to (Nur et al., 2023), not all employees have an accounting degree, accounting experience, or training, so even partial financial understanding will not have a significant impact on the quality of financial reports. This means that understanding accounting has no impact on the quality of financial reports. So it would be better if employees have the same abilities and skills in the field of accounting to increase their understanding of accounting.

## **CONCLUSIONS**

Based on the results of the research conducted, it can be concluded that financial literacy has a positive impact on the performance of MSMEs, because the better the understanding of financial literacy among MSME managers, the better the performance of MSME managers. Apart from influencing the performance of MSMEs, financial literacy can also influence the quality of preparing financial reports, but according to previous researchers, there are also positive and negative influences on the quality of financial reports. According to (Fitriani et al., 2022) states that various financial literacy indicators, such as understanding, ability and confidence about the quality of financial reports, have a significant impact on the quality of financial reports. Meanwhile, according to (Oktaviranti & Alamsyah, 2023) which states that financial literacy is a person's knowledge about financial management. People who are good at managing finances are not necessarily good at making financial reports.

In the goal stage, financial literacy functions to set goals for future plans, such as saving, investing and developing a business (Kusumaningrum et al., 2022). One of the most important business components is finance. Therefore, it is hoped that business executors understand financial management well, because fiscal management has different impacts depending on how it is understood by economic executors. Of course, economic actors definitely want the best results for their company, both in terms of performance and business continuity(Idawati & Pratama, 2020).

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