

THE EFFECT OF FINANCE AND DIGITAL LITERATURES AND FINANCIAL MANAGEMENT ON UMKM PERFORMANCE IN THE CILACAP DISTRICT

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Abstract. *This study aims to determine the effect of financial and digital literatures and financial management on the performance of UMKM. This research used quantitative research using associative approach. Data collection was carried out by distributing questionnaires to 30 respondents of UMKN business actors in Cilacap District. The data analysis method used is quantitative analysis using Path Coefficients Test, Modes of Goodness Test, and Hypothesis Testing. Path coefficient value of the influence of financial management on the performance of UMKM. The results of the linear test and the output of column coefficients and T-tables are known that financial management has a significant effect on performance as seen from the p value $0.005 < 0.05$. Good and correct financial management will provide benefits and advantages for UMKM actors. Several related institutions can provide financial and digital literatures training assistance. Training not only provides theoretical knowledge but also provides activities such as workshops and mentoring continuously.*

Keywords: *Digital, finance, literacy, management, performance*

INTRODUCTION

The changes and developments of digitalization technology has made the society keeping up with it even though many cannot, but the change from conventional to digital requires an adaptation process in society. Technological developments have a significant role in the development of the digital economy, especially for UMKM business actors (Micro, Small and Medium Enterprises). During the Covid 19 pandemic

in 2020, business actors faced their own challenges because economic development was still far from digitalization. The development of the digital economy is very broad, not only in terms of usage and infrastructure, but can be seen from the content of digital use in current economic developments.

UMKM has an enormous role to the Indonesian economy in 2020. It reached 64.19 million with a contribution to PDB of 61, 97% or a value of 8,573.89 trillion rupiahs. The contribution of UMKMs to the Indonesian economy includes the ability to absorb 97% of the total existing workforce and can collect up to 60.4% of the total investment (Ministry of Investment/BKPM, 2020). The development of UMKMs should ideally be accompanied by the

ability of business actors in financial management and digitalization so that they can improve the performance of UMKMs. It is easier to introduce financial literacy, digital literacy and how to manage finances directly, but their application requires adequate infrastructure for implementation.

The 2019 National Financial Literacy and Inclusion Survey (SNLIK) showed a financial literacy index of 38.03% and a financial inclusion index of 76.19%, means that the Indonesian people in general do not understand well the characteristics of various financial products and services offered by formal financial service institutions, even though financial literacy is an important skill in the framework of community empowerment, individual welfare, consumer protection, and increasing financial inclusion (OJK, 2021). The financial literacy index score increase to 49.68% and the financial inclusion index is 85.1% in 2022. This mean that more Indonesian people are starting to know about financial service products (Survey et al.,2022). The increasing score of the Indonesian people's financial literacy index is expected to provide a strategic role in improving the national economy. Many business actors understand about finance but the implementation in their business sector is still not optimal. Business actors understand the right things about finances and their records, but practically, good and correct records are often neglected.

In the era of the industrial revolution 5.0, the use of computerization and digitalization has a very important role in the sustainability of a business. Understanding of financial literacy and financial inclusion as well as how to manage finances properly and correctly is not enough to sustain a business. digital literacy on entrepreneurial

behavior shows that the size of digital literacy can affect the level of entrepreneurial behavior (Sukma prabawati, 2019). The Digital Culture Pillar is recorded with a score of 3.90 on a scale of 5 or good. Furthermore, the Digital Ethics pillar with a score of 3.53 and Digital Skills with a score of 3.44. Meanwhile, the Digital Safety pillar got the lowest score (3.10) or slightly above medium (Kominfo, 2022). According to Mulya Amri, said that Indonesia's Digital Literacy Index was at a score of 3.49 or at a medium and close to good stage. This shows that digital literacy in Indonesia is close to good, but the implementation by business actors in their business activities is not optimal. Increased financial literacy, financial management and digital literacy are approaching good, then the performance of UMKM will be hampered if UMKMs are not able to manage their finances properly, and UMKM will experience difficulties in accessing finance (Wahyu Rumbianingrum, 2018).

LITERATURE REVIEW FINANCIAL LITERACY

Financial literacy is the ability to use knowledge and skills to manage financial resources effectively for financial well-being (Hasibuan et al., 2022). Based on the Indonesian National Financial Literacy Strategy (Revisit 2017) there are 3 strategic program pillars i.e. Financial Proficiency, Wise Financial Attitudes and Behavior, and Access to Finance. The three pillars are First, the basic concept of financial literacy is not only based on the three aspects of financial literacy, i.e. knowledge, skills and beliefs, but also includes aspects of attitude and behavior

Second, in reality, financial literacy is very closely related to financial inclusion so there is a need for alignment and continuity between financial literacy activities and financial inclusion. Third, achieving a more efficient financial literacy and inclusion strategy is carried out jointly so that the goal of achieving financial literacy to expand public access to the financial services sector can be carried out more optimally.

DIGITAL LITERACY

Digital literacy is an individual's interest, attitude and ability to use digital technology and communication tools to access, manage, integrate, analyze and evaluate information, build new knowledge, create and communicate with others in order to participate effectively and efficiently. It is also an individual's interest, attitude and

ability to use digital technology and communication tools to access, manage, integrate, analyze and evaluate information, construct new knowledge, create and communicate with others in order to participate effectively in society. (Rila Setyaningsih, Abdullah, Edy Prihantoro, 2020). Technological developments can provide convenience in carrying out activities where distance is not a problem. According to Douglas A.J. Belshaw in his thesis *What is 'Digital Literacy'?* (2011) said that there are eight essential elements to develop digital literacy, i.e. as follows: (1) Cultural, i.e. understanding the various contexts of users of the digital world; (2) Cognitive, i.e. the power of thinking in assessing content; (3) Constructive, i.e. the creation of something that is expert and actual; (4) Communicative, i.e. understanding the performance of networks and communications in the digital world; (5) Responsible self-confidence; (6) Creative, doing new things in new ways; (7) Critical in addressing content; and (8) Socially responsible. Digital literacy is the knowledge and skills to use digital media, communication tools, or networks in finding, evaluating, using, creating information, and utilizing it in a healthy, wise, smart, accurate, precise, and law-abiding manner in order to foster communication and interaction in daily life. The purpose of digital literacy in society is to educate people in utilizing technology and communication by using digital technology and communication tools or networks to find, evaluate, use, manage, and create information wisely and creatively (Ministry of Education and Culture, 2017).

FINANCIAL MANAGEMENT

Running a business cannot be separated from continuous financial management. Financial planning is one of the financial management that must be carried out by an entrepreneur or business actor. Managing finances requires discipline and strong determination in managing it. Financial management is a person's ability to organize, manage, plan, and save their daily finances. (Gunawan et al., 2021). According to Warsono 2010 in (Sri & Hati, 2021) in managing personal finances, there are four (4) areas that are the main study, i.e. the use of funds, determining sources of funds, risk management, life and assets, and retirement planning. There are several financial management based on the objectives of its activities, i.e. business or business financial management, personal financial management and government financial management. Financial management for business or profit-oriented business activities.

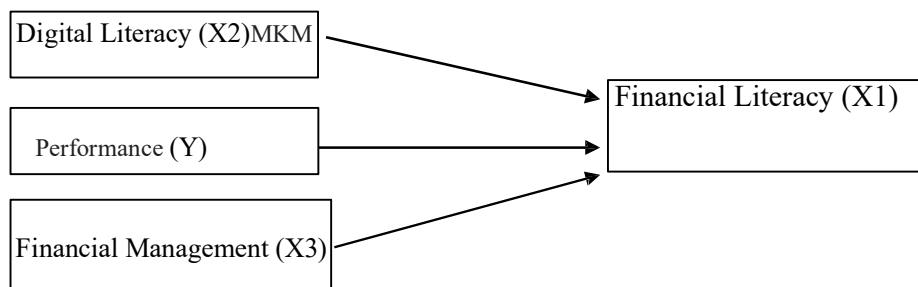
There are 5 benefits of financial planning for business owners, i.e.: (1) achieving financial goals, (2) minimizing financial risks, (3) productive assets, (4) providing confidence in financial decisions and business planning, (5) achieving and maintaining prosperity life (Sukarman, Anita, 2021).

UMKM PERFORMANCE

Company performance is a display of the overall condition of the company over a certain period of time, which is a result or achievement that is influenced by the company's operational activities in utilizing its resources (Luh Kartika Ningsih, 2017). UMKM performance is the result or evaluation of company work achieved by a person or group by dividing activities in the form of tasks and roles (Kumalasari & Asandimitra, 2019). Indicators of UMKM performance, i.e.: (1) Business growth, i.e. the ability of a business to increase sales, profits and diversify in product lines, (2) Total business income Total business income comes from the company's main activities, i.e. all income obtained from the difference between receipts and total costs within a certain period of time, (3) Total orders, i.e. total product orders ordered or to be purchased by consumers, (4) Business cash position, i.e. business financial records to find out the amount of profit earned in the business and to know cash inflows and cash outflows (Wira Iko P Y, 2019).

CONCEPTUAL FRAMEWORK

Based on the literature review developed in the research, the conceptual framework for the research can be drawn up as follows:



Note: show the effect of each independent variable on the dependent variable.

Figure 1. Conceptual Framework

Through the conceptual framework above, it can be seen that: the independent variable consists of 3 variables, i.e. X1: Financial Literacy, X2: Digital Literacy, X3: Financial Management and the dependent variable consists of 1 variable, i.e. UMKM Performance.

Hypothesis

The hypothesis in this study is as follows:

H1: Financial literacy has a positive and significant effect on UMKM performance. H2:

Digital literacy has a positive and significant influence on UMKM performance.

H3: Financial management has a positive and significant impact on UMKM performance.

RESEARCH METHODS

The type of research used in this research is quantitative research using an associative approach. Quantitative research is research that obtains data in the form of numbers or qualitative data that is numbered or data in the form of numbers in statistical analysis. Associative research is research that aims to determine the influence or relationship between two or more variables (Sugiyono, 2015). The sample is part of the number and characteristics possessed by the population. If the population is large and the researcher is not able to study everything in the population, for example due to limited funds, manpower, and time, the researcher can use samples taken from that population (Sugiyono, 2015). Data obtained directly from the source or research subject. Primary data sources are data obtained directly by distributing questionnaires to respondents. Data obtained indirectly through print media such as books, journals, company catalogs, and other information related to the subject of research (Wira Iko P Y, 2019).

The quantitative data is supported by interviews conducted to 2 respondents who fall into the research category. The results of these interviews can strengthen the results of quantitative data and add other factors that have an influence on the performance of UMKMs in Cilacap Regency.

RESULT AND DISCUSSION

Through questionnaires that were distributed to several business actors, namely UMKMs, they obtained data from 30 respondents. In this study, there are 3 independent variables (financial literacy, digital literacy and financial management) and 1 dependent variable (UMKM performance).

Structural Model Design and Measurement Model

The design of the inner model shows the relationship between the latent variables X1, X2, X3 and Y.

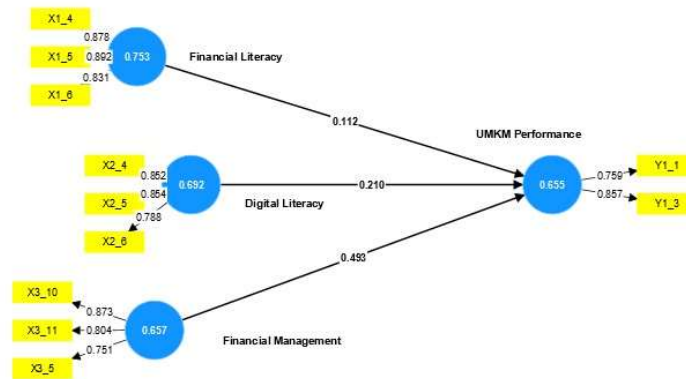


Figure 2. Designing the inner model

Source: Data was processed by Smart PLS v.4, 2002

The descriptions in the research are summarized in the following table

Table 1. Respondent Identity

Gender	Person	Persentase %
Man	6	2%
Women	24	8%
Age	Person	Persentase %
23 - 40	16	35%
41 - 49	14	16%
Omzet/month	Person	Persentase %
1 - 5 Million	16	53%
6 - 10 Million	4	13%
11 - 100 Million	9	30%
>300 Million	1	3%
	30	
Length	Person	Persentase %
1-5 Year	19	63%
5-10 Year	9	30%
10-20 Year	2	7%
	30	

Source: Primary data processed with Excel, 2022

Based on table 1, to become a business actor, you do not have to wait to be more than 40 years old or wait for retirement at the age of 55 years. Respondents who became business actors from the age of 23 years - 40 years were 16 people. The amount of monthly turnover received by business actors is at least Rp. 1,000,000 (one million rupiah) while the largest in this study is Rp. 300,000,000 (three hundred million rupiah). The length of business of each business actor varies from 1 year to 20 years.

DATA ANALYSIS

Measurement Model (Outer Model)

The measurement model (outer model) is used to measure the level of correlation between item/indicator scores and construct scores (Ghazali, 2015).

Validity test

The convergent validity test is used to test the correlation value between the indicator and the construct whether it is valid with the rules of thumb correlation value above 0.70.

Table 2 Outer Loading

	Original
Sampel (o) X1_4 <- Financial Literacy	0.878
X1_5 <- Financial Literacy	0.892
X1_6 <- Financial Literacy	0.831
X2_4 <- Digital LiteracyL	0.852
X2_5 <- Digital Literacy	0.854
X2_6 <- Digital Literacy	0.788
X3_10 <- Financial Management	0.873
X3_11 <- Financial Management	0.804
X3_5 <- Financial Management	0.751
Y1_1 <- UMKM Performance	0.759
Y1_3 <- UMKM Performance	0.857

Source: Data retrieved with Smart PLS v.4, 2022.

From the results of table 2 the data loading factor shows that all data have a value of more than 0.70. The discriminant validity test is to test the correlation level of the construct with its indicators compared to the correlation of indicators with other constructs.

Reliability Test

The reliability test is said to be reliable if the composite reliability value and Cronbach's alpha is greater than 0.6.

Table 3. Composite Reliability Output and Cronbach's alpha iance

	Cronbach's alpha	Composite reliability (rho_a)	Composite reliability (rho_c)	Average var extracted (
UMKM Performance	0.479	0.495	0.791	0.655
Digital Literacy	0.782	0.814	0.871	0.692
Financial Literacy	0.841	0.887	0.901	0.753
Financial Management	0.743	0.744	0.852	0.657

Source : Data retrieved with Smart PLS v.4, 2022

The financial performance variable has a Composite Reability (CR) value of 0.791 ≥ 0.70 which indicates that each item that measures performance is consistent/reliable in measuring performance. Likewise with the Composite Reability value of the Digital Literacy variable, Financial Literacy and the Financial Management variable. The AVE value is 0.655 which means that the variation in performance measurement items contained by the performance variable is 65.5%. Because the AVE Performance value is $0.655 \geq 0.50$, the requirements for good convergent validity are fulfilled. Overall, the AVE value of the variable ≥ 0.50 means that the requirements for good convergent validity are met.

Discriminant Validity Criterion

Table 4 Discriminant Validity Criterion

	UMKM Performance	Digital Literacy	Financial Literacy	Financial Management
UMKM Performance	0.810			
Digital Literacy	0.490	0.832		
Financial Literacy	0.546	0.661	0.868	
Financial Management	0.648	0.419	0.599	0.811

Source : Data retrieved with Smart PLS v.4, 2022

The AVE root for Performance is 0.810 which is greater than its correlation with other variables. Then Discriminant Validity for the correlation variable is fulfilled. Likewise with other variables where the root of the AVE variable > correlation between variables. Overall, the discriminant validity evaluation was fulfilled.

Table 5 Output of Lane Coefficients and T-table

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (O/STDEV)	P values
Digital Literacy - > UMKM Performance	0.210	0.247	0.201	1.045	0.148
Financial Literacy -> UMKM Performance	0.112	0.123	0.185	0.604	0.273
Financial Management -> UMKM Performance	0.493	0.480	0.193	2.553	0.005

Source : Data retrieved with Smart PLS v.4, 2022

Digital Literacy does not have a significant effect on performance seen from the P Value $0.148 > 0.05$. Financial Literacy does not have a significant effect on performance seen from the P Value $0.273 > 0.05$. Financial Management has a significant influence on Performance seen from P Value $0.005 < 0.05$.

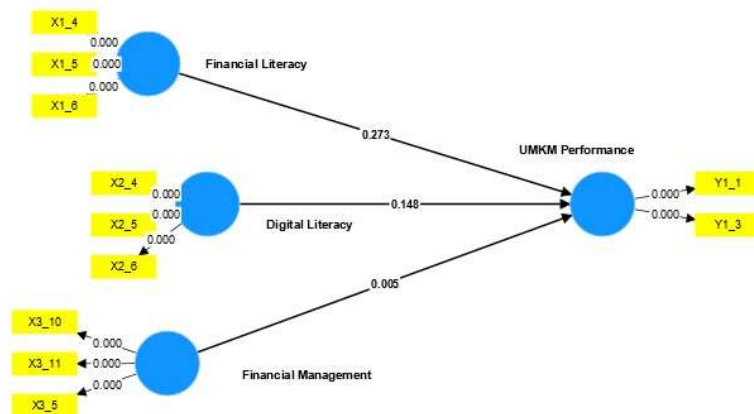


Figure 3. The design of the inner model

Source : Data retrieved with Smart PLS v.4, 2022

CONCLUSIONS AND RECOMMENDATIONS

The results of the liner test and the output of the column coefficient and T-table in table 5 show that the P value of the digital literacy variable is $0.148 > 0.05$. This shows that digital literacy has no influence on the performance of UMKMs. The results of the research that support this weak correlation indicate that digital literacy does not play much of a role in the readiness of UMKM actors who are members of the WPC group to carry out their electronic tax reporting obligations. These UMKMs only use existing technology to communicate and exchange information, not for business management (Nilamsari et al., 2020). In the second hypothesis that the financial literacy variable has a significant influence on the performance of UMKMs, but in the results of this study the hypothesis is not appropriate. The results of the output column coefficients and T-table show that financial literacy does not have a significant effect on performance, seen from the P value of $0.273 > 0.05$. The results of this study are in line with the results of research (Imaniar, N. P., & Siahaan, 2021) which shows that inflation that occurs due to limited availability of goods and services makes it difficult for UMKM actors to carry out investment activities in an effort to increase finances in the future.

The results of the liner test and the output of the column coefficient and T-table show that financial management has a significant effect on performance as seen from the P value of 0.005

<0.05 . In this study, it is consistent with (Suindari & Juniariani, 2020) financial management has a positive effect on UMKM performance. This shows that the better the financial management carried out by UMKM actors, the business performance will also increase.

RECOMMENDATIONS

Based on the results of the discussion of the 3 variables of financial literacy, digital literacy and financial management that have the most significant influence on UMKM performance, namely financial management. The financial literacy and digital literacy variables do not affect the performance of UMKMs in Cilacap Regency when viewed from the length of time the business has been carried out, financial management is the most dominant. Several financial institutions and the Ministry of Communication and Information provide assistance in financial literacy and digital literacy training. Training

does not only provide theoretical knowledge but rather provides activities such as workshops and ongoing mentoring.

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