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The Effect Of Financial Literacy, Financial Inclusion, And Financial Technology On The Financial Performance Of Msmes (A Study Of The Nozama Sme Community In Malang City)

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ABSTRACT

Micro, Small, and Medium Enterprises (MSMEs) are considered to play an important role in driving a country's economic growth. The purpose of this study is to determine and analyze the effect of financial literacy, financial inclusion, and financial technology on financial performance. This study is a quantitative descriptive study. The sample size in this study was 71 samples determined using stratified purposive sampling. The data were analyzed using SmartPLS 4. The results of this study indicate that financial literacy has a significant effect on financial performance, financial inclusion does not have a significant effect on financial performance, and financial technology has a significant effect on financial performance.

INTRODUCTION

The Micro, Small, and Medium Enterprises (MSME) sector is considered to play an important role in driving a country's economic growth. Based on the results of a survey by the Financial Services Authority (OJK), the MSME sector in Indonesia contributes around 60% to the Gross Domestic Product (GDP) and employs around 97% of the workforce. With its ability to provide employment, this sector also contributes to poverty alleviation efforts (Pangastuti et al., 2023) . The large number of MSMEs in Malang City reflects great potential for development, particularly through improving financial literacy, expanding financial inclusion, and utilizing financial technology to support business growth and sustainability.

Financial performance describes the results achieved by a company in a certain period and reflects its financial condition (Sutrisno, 2011). More than just data in financial reports, financial performance also serves as a key indicator for assessing and measuring a company's

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ability to generate profits (Pang et al., 2020). It is important for MSME owners to monitor and analyze financial performance regularly to support strategic decision-making and future business development planning.

Financial literacy is defined by the Financial Services Authority (OJK) in 2020 as the ability of an individual or group to understand and apply knowledge and skills related to the financial world to help them make the right decisions. Financial literacy is very important because it is the basis for individuals to manage and plan their finances wisely, so that every financial decision made is more appropriate and focused.

Financial Services Authority Regulation No. 76.POJK.07/2016 defines financial inclusion as access to various financial institutions, goods, and services that meet the needs of the community with the aim of improving general welfare. Understanding and access to financial resources are very important for micro, small, and medium enterprises (MSMEs) in Indonesia for better business management and improved financial performance.

Financial Technology is a crucial element in the transformation of financial services that plays an important role in driving economic growth and expanding financial inclusion in Indonesia. Micro, Small, and Medium Enterprises (MSMEs) have easier access to services such as loans, digital payments, and financial management thanks to advances in financial technology, especially smartphones. In addition to simplifying transactions, this helps MSMEs with financial management and operational efficiency, which drives their company growth.

Several previous studies examining factors that affect financial performance have produced different results. According to (Mimi Sakiyana et al., 2023), financial literacy has a partially positive and insignificant effect on financial performance. However, the different results produced by (Dwinta., et al 2022) show that financial literacy has a significant effect on the financial performance of MSMEs. According to (Purwanto et al., 2021), financial inclusion improves the financial performance of MSMEs. However, the results produced by (Rahma Eka et al., 2022) show that financial inclusion has no effect on financial performance. According to (Mimi Sakiyana et al., 2023) with , the results show that Financial Technology has a significant effect on financial performance. However, the results produced by (Jelly et al., 2021) state that the financial performance of MSMEs in Pangkalpinang City is negatively affected by financial technology.

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This study has three objectives: first, to determine and analyze the effect of financial literacy on financial performance; second, to determine the effect of financial inclusion on financial performance; and third, to determine the effect of financial technology on financial performance.

LITERATURE REVIEW

1. Financial Literacy and Financial Performance

Financial literacy is the ability to understand and manage business finances effectively (OJK, 2020). Research by Dwinta et al. (2022) and Pangastuti et al. (2023) shows that financial literacy has a positive effect on the financial performance of MSMEs. However, Mimi Sakiyana et al. (2023) found that the effect was not significant, indicating the presence of other moderating factors.

Hypothesis 1: Financial literacy has a positive effect on the financial performance of MSMEs.

2. Financial Inclusion and Financial Performance

Financial inclusion provides access to formal financial services (POJK No. 76/2016). According to Purwanto et al. (2021) and Fadilah et al. (2022), financial inclusion improves the financial performance of MSMEs. Conversely, Rahma Eka et al. (2022) and Putri (2021) found no significant effect, indicating a gap between access and effective utilization.

Hypothesis 2: Financial inclusion has a positive effect on the financial performance of MSMEs.

3. Financial Technology and Financial Performance

Fintech facilitates transactions and access to financing for MSMEs (Novita et al., 2023). According to Mimi Sakiyana et al. (2023) and Ariffudin et al. (2023), fintech has a positive effect on financial performance. However, according to Jelly et al. (2021), fintech has a negative effect, indicating the importance of digital literacy as a supporting factor.

Hypothesis 3: Financial Technology has a positive effect on the financial performance of MSMEs.

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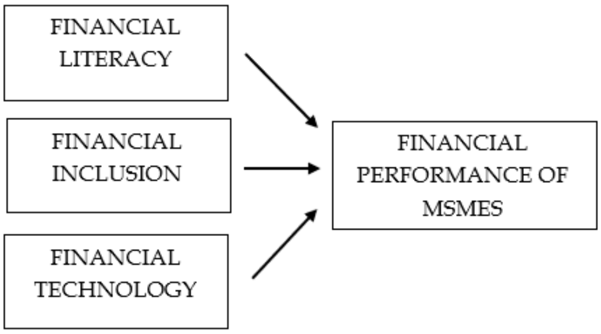

Figure 1. Theoretical Framework

- Independent Variables: Financial Literacy, Financial Inclusion, Financial Technology
- Dependent Variable: Financial Performance of MSMEs
- Relationship: Three arrows from each independent variable point to the dependent variable, indicating the hypothesized direct effect.

METHODS

This study uses a quantitative approach with the *Stratified Purposive Sampling* technique, as it has criteria that must be met. The sample used has the following criteria: 1) Actively running an MSME (minimum 1 year), 2) Residing and running a business in the Malang City area, 3) Currently using technology-based payment facilities. The sample size was calculated using the Slovin formula.

$$n = \frac{N}{1 + Ne^2}$$

Given:

n = sample size

N = population size

e = Percentage of error that can be tolerated according to statistics

Since the population in the Nozama community consisted of 240 respondents, the calculation using the Slovin formula resulted in 71 respondents. In this study, SmartPLS 4 was used for two testing models, namely the measurement model (outer model) to test the validity and reliability of the instrument and the structural model (inner model) to measure the relationship between variables.

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Table 1. Operational Definition of Variables

No.	Variable	Indicators	Source
1	Financial Literacy: is an individual's ability to use all their financial resources effectively and with knowledge and skills in the field of financial literacy. (Bakhtiar et al., 2022)	1. Financial Knowledge 2. Financial Attitude 3. Financial Behavior	Oseifuah (2010)
2.	Financial Inclusion: defined by Bank Indonesia's National Strategy for Financial Inclusion (SNKI) as the right of every person to access and obtain the maximum amount of services from financial institutions in a timely and informed manner, at a reasonable cost, while maintaining their comfort and dignity. (Hilmawati & Kusumaningtias, 2021)	1. Financial Access 2. Use of Financial Services 3. Quality of financial services 4. Well-being	Putri, (2022)
3.	Financial Technology: Financial technology is a transformation in financial services that makes them easier to use and more accessible for MSMEs to grow by offering primarily digital payment services. (Fadilah et al., 2022).	1. Convenience 2. Usage 3. Benefits	(Novita et al., 2023)
4.	Financial Performance: a set of criteria that can be used to measure how successful a business	1. Achievements in product sales 2. Profit increase	(Paramarta et al., 2024)

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	or organization is at making money. (Alamsyah, 2020)	3. Achievement of revenue targets	

RESULTS AND DISCUSSION

Based on the results of data processing using *SmartPLS 4*, the following results were obtained:

Validity and Reliability Test

Table 2 . ***Average Variance Extracted (AVE)***

Variable	Average Variance Extracted (AVE)	Critical Value
Financial Literacy	0.762	0.5
Financial Inclusion	0.729	
Financial Technology	0.766	
Financial Performance	0.777	

Source: Primary data processed in 2025

Based on the table above, the AVE values produced by all reflective constructs are above 0.50, thus meeting the convergent validity requirements. This means that all variables in this study are valid.

Table 3. ***Composite Reliability and Cronbach Alpha***

Variable	Cronbach's Alpha	Composite Reliability	Critical Value
Financial Literacy	0.843	0.924	0.7
Financial Inclusion	0.877	0.887	
Financial Technology	0.847	0.874	
Financial Performance	0.858	0.876	

Source: Primary data processed in 2025

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The results of the construct reliability test show that all constructs have values greater than 0.7, which means that all constructs in this study can be used and are reliable.

Table 4. *R-Square*

Variable	R-Square	Adjusted R-Square
Financial Performance	0.808	0.793

Source: Primary data processed in 2025

An *R-square* value of 0.808 indicates that financial literacy, financial inclusion, and financial technology can explain 80.8% of the variation in financial performance, while the remainder is explained by other variables outside the model.

Hypothesis Testing

Hypothesis testing was conducted to determine whether there was a significant relationship between the independent and dependent variables. A t-statistic value > 1.96 and a p-value < 0.05 indicate a significant relationship.

Table 5. Hypothesis Testing

Hypothesis	Variable	T statistics (|O/STDEV|)	P values
H1	**X1. Financial Literacy -> Y. Financial Performance**	1.903	0.02
H2	**X2. Financial Inclusion -> Y. Financial Performance**	1.448	0.074
H3	**X3. Financial Technology -> Y. Financial Performance**	2.868	0.002

Source: Primary data processed in 2025

Based on Table 5, the results of testing the effect of financial literacy on financial performance can be proven by a probability value (p-value) of 0.029, which is at the significance threshold of 0.05 with a positive direction. These test results show that empirically, hypothesis (H1) is accepted, which states that financial literacy has a significant effect on financial performance (H1 accepted).

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Based on Table 5, the results of testing the effect of financial inclusion on financial performance can be proven by a probability value (p-value) of 0.074, which exceeds the significance threshold of 0.05 with a positive direction. These test results show that empirically, hypothesis (H2), which states that financial inclusion does not have a significant effect on financial performance, is rejected (H2 rejected).

Based on Table 5, the results of testing the effect of financial technology on financial performance can be proven by a probability value (p-value) of 0.002, which is far below the significance threshold of 0.05 with a positive direction. These test results show that empirically, hypothesis (H3) can be accepted, which states that financial technology has a significant effect on financial performance (H3 accepted).

Discussion

a. Financial Literacy Affects Financial Performance.

The results of this study indicate that financial literacy has a significant effect on the financial performance of MSMEs. This means that a good understanding and management of financial literacy ( ) is an important foundation for improving the financial stability and growth of MSME businesses. In the context of Nozama MSMEs, which are in the midst of digital competition and the post-pandemic economy, financial literacy is a strategic foundation that supports optimal financial performance, so the first hypothesis can be accepted. This study is in line with research by (Darmawan et al., 2021) , (Rusnawati, Rusdi. R, 2022) and research (Pangastuti et al., 2023) with the results that financial literacy has a positive and significant partial effect on the financial performance of MSMEs because good financial literacy among business actors will have an impact and influence on improving business financial performance, especially in supporting their ability in the financial performance of MSMEs.

b. Financial Inclusion Affects Financial Performance.

The results of this study indicate that financial literacy does not have a significant effect on the financial performance of MSMEs. High financial performance is evident in their ability to meet revenue targets and consistently increase profits, which is directly related to their ability to access and utilize existing financial services. This research is not supported by researchers (Fadilah et al., 2022) and (Novita et al., 2023) who state that financial inclusion has a positive and significant impact on financial performance. However, this is supported by

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(Putri, 2021) which states that financial inclusion does not affect financial performance. This is because formal access alone is not sufficient; effective use, adequate literacy, and financial technology support are also required as catalyst variables. Inclusion without utilization and education does not improve the performance of micro businesses in the sample.

c. Financial Technology Affects Financial Performance.

The third hypothesis was proven in this study: Financial technology has a positive and significant effect on financial performance. Financial technology has been proven to have a strong and positive effect on the finances of MSMEs, as it helps facilitate transactions, manage finances more efficiently, and directly increase their income and business development. This study is in line with research conducted by (Ariffudin et al., 2023) and (Reta & Indriastuti, 2025) with results stating that financial technology has a significant impact on the financial performance of MSMEs, as it is part of technological advances that require business actors to adapt. By optimally utilizing financial technology, SMEs can adapt to the times and improve the operational efficiency of their businesses.

CONCLUSION AND RECOMMENDATIONS

Based on the results of research on the influence of financial literacy, financial inclusion, and financial technology on the financial performance of MSMEs in Malang City, it can be concluded that:

1. **Financial literacy** has a positive and significant effect on the financial performance of MSMEs. The higher the understanding of MSME players of financial concepts such as financial management, investment, and financial planning, the better the financial performance of their businesses.

2. **Financial inclusion** does not have a significant effect on the financial performance of MSMEs. This shows that even though access to financial services is available, it is not necessarily utilized optimally by MSME players to improve their financial performance.

3. **Financial Technology (Fintech)** has a positive and significant impact on the financial performance of MSMEs. The use of financial technology such as digital wallets, payment applications, and online lending platforms has simplified operational activities and increased the business efficiency of MSMEs in Malang City.

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LIMITATIONS

1. The study **is limited to one SME community (Nozama in Malang City),** so the results cannot be generalized to all SMEs in Indonesia, which may have different characteristics.
2. **Only three independent variables were used**, namely financial literacy, financial inclusion, and financial technology. There are many other factors that may also affect the financial performance of MSMEs, such as digital competence, marketing management, or macroeconomic conditions, which were not examined in this study.
3. **The data was obtained through questionnaires**, so it depends on the subjectivity and understanding of the respondents. This can cause bias if respondents do not answer honestly or do not fully understand the questions.

RECOMMENDATIONS

1. **For MSME players**:

Based on the results of research stating that financial literacy affects financial performance, it is necessary for MSME players to improve their financial literacy, particularly in terms of financial recording, management, and evaluation. Financial training or workshops can help improve these skills.

2. **For the government or related institutions**:

There is a need for more comprehensive outreach and education on the benefits of financial inclusion so that MSME players can utilize financial services effectively and sustainably.

3. **For Financial Technology developers**:

Based on the results of the study, Fintech has an impact on financial performance. It is recommended to continue developing user-friendly platforms and provide digital education to MSME players so that they can access and utilize financial technology optimally.

4. **For future researchers**:

Other variables such as digital competence, online marketing, or external economic factors can be added to enrich research on the financial performance of MSMEs, as well as expand the research area to obtain maximum results

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