

FINANCIAL TRANSFORMATION OF MICRO ENTERPRISES: THE IMPACT OF FINANCIAL LITERACY AND DIGITAL PAYMENT

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Abstract

This study aims to examine the influence of financial literacy and payment gateway utilization on the economic performance of micro-enterprises in Banyumas. A questionnaire is a tool for data collection. The target population for this study comprised all micro-enterprises registered with the Banyumas Regency Cooperatives and SMEs Service, totaling 89,477 distinct entities. Snowball sampling is a sampling technique wherein each participant refers more persons that satisfy the study sample criteria. This strategy was employed to pick a sample that accurately represents the population. The sample size for this study was established at one hundred respondents using the Slovin algorithm to ascertain the appropriate sample size. Partial Least Squares (PLS) served as the analytical instrument for data evaluation. This research indicates that the financial performance of micro-enterprises is affected by financial literacy and payment gateways.

Keywords: Micro enterprises, Financial Literacy, Payment Gateway, Financial Performance

INTRODUCTION

Micro, small, and medium companies (MSMEs) are a significant factor in the growth and development of the Indonesian economy. Micro, Small, and Medium Enterprises (MSMEs) significantly contribute to alleviating poverty and decreasing unemployment rates, while also making a substantial impact on Indonesia's Gross Domestic Product (GDP). In 2022, MSMEs contributed IDR 9,580 trillion, approximately 60% of the Gross Domestic Product. Furthermore, the GDP of MSMEs has consistently risen over the previous decade, from 2010 to 2020. (Lokadata, 2021).

Given the substantial contribution of MSMEs to state revenue, the MSME sector is undeniably significant and warrants further attention to facilitate the growth and development of business operators. The financial performance of a micro business is a crucial determinant of the success of its operators. Financial performance serves as a key indicator for evaluating a business's health. Financial reports can be utilized to identify companies with robust financial conditions, and conversely (Winbaktianur & Siregar, 2020). Excerpted from the official website Republika (2022), The Financial Services Authority, or OJK, identified three primary issues hindering MSMEs from advancing in classification, resulting in stagnant or declining performance, particularly post-Covid-19 pandemic: inadequate utilization of digital technology, financing or capital challenges, and subpar human resource quality.

The issue of tiny companies unable to update is also present in Banyumas Regency, as stated on the official website Suara Merdeka Banyumas (2024). The Purwokerto Branch of Bank BRI contributes to addressing the issue of MSMEs that have not advanced by providing assistance in several areas such as business management training, legal compliance, marketing, and the digitalization of QRIS-based financial transactions. Moreover, Kompas.com (2023) elucidates that some micro and small-scale culinary entrepreneurs have voiced their discontent with the declining income pattern observed in recent months. This reduction in income also affected the financial performance.

Financial performance can be affected by various reasons, one of which is financial literacy. (Alamsyah, 2020). Financial literacy denotes an individual's understanding of effective financial management, fundamental financial principles, and the ability to make prudent financial choices (Wirayasa & Yasa, 2023). The National Survey of Financial Literacy and Inclusion (SNLIK) was conducted by OJK (2022), In 2022, the financial literacy index was 49.68%, reflecting a rise of 11.65% from the 2019 survey, which recorded a financial literacy index of 38.03%. Prior studies investigating the correlation between financial literacy and financial performance are research Babajide et al. (2023), Tuffour et al. (2022), Hilmawati & Kusumaningtias (2021), Alamsyah (2020), and Agyapong & Attram (2019) Research findings indicate that financial literacy positively influences financial performance. Research conducted by Naufal & Purwanto (2022) and Pradipta (2022) indicated that financial literacy does not influence the financial performance of MSMEs.

Both financial literacy and the company's financial performance can be enhanced through digital platforms, including the utilization of payment gateways (Mulyanti & Nurhayati, 2022). Digital platforms present chances to enhance the performance of MSMEs; yet, numerous MSMEs currently lack the resources and competencies to implement these platforms effectively in their operations (Cenamor et al., 2019). Excerpted from the official website CNBC Indonesia (2023), The payment gateway business presently encounters several issues concerning infrastructure, innovation in payment channels, and safeguarding the competitiveness of local entrepreneurs against global rivals. Furthermore, initiatives to enhance public education regarding payment services are essential to address this concern. Prior studies investigating the correlation between financial literacy and financial performance are attributed to Pangestu & Rita (2022), Kustina & Aji (2023), and Nursansiwi & Armiani (2022), indicating that the utilization of payment gateways positively influences the financial performance of MSMEs. Research conducted by various sources yields disparate outcomes Sari (2023) and Riadloh & Nasution (2023), the findings indicate that the utilization of payment gateways adversely impacts the financial performance of MSMEs.

The study's scope is confined to the comprehension of financial literacy, the utilization of payment gateways, and the financial performance of micro-enterprises, as delineated by the identified issues and phenomena in the background. Inquiries may be posed about the study's limits, such as: 1) Does comprehension of financial literacy influence financial performance in micro-enterprises within Banyumas Regency? 2) Does the utilization of payment gateways influence the financial performance of micro-enterprises in Banyumas Regency? The gateway influences the financial performance of micro companies in the Banyumas district. The research objectives derived from the identification of existing issues are as follows: 1) To analyze the impact of financial literacy on the financial performance of micro firms in the Banyumas district. To examine the impact of utilizing a payment gateway on the financial performance of micro-enterprises in the Banyumas district.

LITERATURE REVIEW AND HYPOTHESIS FORMULATION

Resource-Based View Theory

The Resource-Based View (RBV) theory posits that a business can attain superior performance and a sustainable competitive advantage by successfully accessing valuable, non-substitutable, and inimitable resources and capabilities, provided the company can effectively absorb and utilize these assets (Barney, 1991). The resources in question encompass not only physical assets but also internal resources, specifically the competencies and expertise held by the organization. The organization must possess strong ability to assimilate and utilize these resources into its business strategy to engage in sustained competition (Sari, 2020). This study utilizes the RBV theory as a framework to elucidate that financial literacy, an internal resource of a company, possesses value and potential to enhance the operations of micro business.

Technology Acceptance Model

The Technology Acceptance Model (TAM) evaluates the adoption of technology by measuring two primary factors: users' perceptions of the technology's ease of use and their assessment of the advantages derived from it (Davis, 1989). The theoretical assumptions under the TAM framework are specified by Nuryyev et al. (2020). The primary elements influencing the inclination to adopt technology are the perceived ease of use and the anticipated rewards. The payment gateway in this study is intricately linked to the concept within the Technology Acceptance Model (TAM) theory. The practical and efficient experience of utilizing a payment gateway enhances the perceived ease of use, while the resultant performance gains reinforce the perceived advantages of employing a payment gateway.

Financial performance

Financial performance, as per Fahmi (2017: 2) serves as a criterion to assess the proper and accurate execution of financial implementation regulations by an organization. According to Sukmawati et al. (2022), the financial performance serves as a foundation for evaluating a business's financial status during a specific period, which can be derived via financial statement analysis. Rudianto (2017) states that several guidelines can be used as benchmarks to measure a company's financial performance, namely Profitability Ratio, Activity Ratio, Leverage Ratio, and Liquidity Ratio.

Financial Literacy

Soetiono (2018) Financial literacy is defined as the information, beliefs, and abilities that affect management attitudes and behaviors, hence enhancing the quality of decision-making in management.. The Financial Services Authority (OJK, 2017) categorizing financial literacy into four tiers: well literate, somewhat literate, less literate, and not literate.

Payment Gateway

Supiandi et al. (2023) A payment gateway is defined as a service that authorizes transactions for credit card, debit card, and digital wallet customers. According to Peraturan Bank Indonesia Nomor 18/40/PBI/2016, *a payment gateway is an electronic service enabling merchants to conduct transactions utilizing payment instruments like cards, electronic money, and/or proprietary channels.* There are many types of *payment gateways* circulating in society. According to (Kustina & Aji, 2023), The prevalent sorts of payment gateways in society include QRIS, OVO, Dana, Gopay, and Shopeepay.

Financial Literacy on Micro Business Financial Performance

A comprehensive grasp of financial literacy can facilitate prudent consumer choices, enable quality acquisitions, and diminish the likelihood of erroneous decisions pertaining to economic and financial matters..(Anshika et al., 2021). The relationship between financial literacy and financial performance is also proven in research Mulyanti & Nurhayati (2022). The research revealed an enhancement in financial literacy comprehension among MSME stakeholders impacted by the COVID-19 pandemic, attributable to economic instability, yielding favorable outcomes and notable advancements in their enterprises' financial performance. The hypothesis was formulated based on theoretical frameworks and prior research:

H1: Financial literacy positively influences the financial performance of micro businesses in Banyumas Regency.

Payment Gateway on Micro Business Financial Performance

The benefits of utilizing a payment gateway encompass enhanced security and transactional simplicity. Furthermore, a payment gateway facilitates a business in obtaining convenience in transactions, encompassing debit cards, credit cards, and many internet payment methods (Supiandi et al., 2023). The utilization of payment gateways can substantially influence the financial performance of a corporation, particularly for e-commerce enterprises or internet ventures.

(Octavina & Rita, 2021). Octavina & Rita (2021) emphasized that payment channels substantially impact the financial performance of MSMEs. Drawing from prior research indicating a positive correlation between the utilization of payment gateways and the financial performance of micro-enterprises, the hypothesis was formulated as follows:

H2: The Payment Gateway positively influences the financial performance of micro businesses in Banyumas Regency.

A conceptual framework for the research can be delineated based on the hypothesis development description (Figure 1).

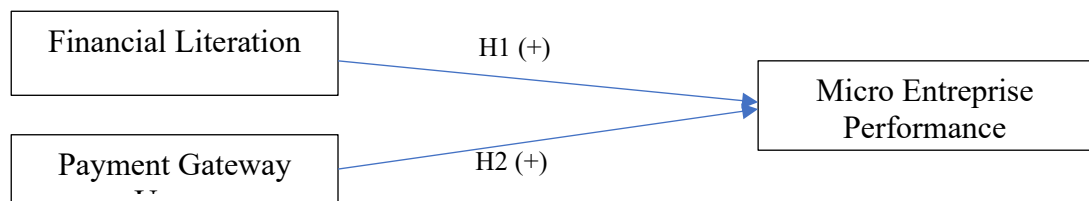


Figure 1. Research Model

RESEARCH METHODS

This research employs a quantitative survey methodology, utilizing a questionnaire distributed to micro-business owners in Banyumas Regency as the major data source. A questionnaire is a data collection method that involves presenting a series of questions to respondents for them to answer based on their actual circumstances (Sugiyono, 2017: 193). This study focuses on micro-businesses in Banyumas Regency, with business operators serving as research respondents. This research aims to examine financial literacy, the utilization of payment gateways, and the financial performance of micro-businesses in Banyumas Regency.

The research population comprised all micro-enterprises in Banyumas Regency, totaling 89,477 firms. The information was acquired from Dinas Koperasi dan UKM Provinsi Jawa Tengah (2023). The population encompasses the complete subject of investigation, which may include objects, organisms, test scores, events, or symptoms serving as data sources that signify a specific characteristic within a study (Sinaga, 2014). This study's sample comprised micro-enterprises situated in Banyumas Regency, with the Slovin formula employed to ascertain the sample size. The sample derived from a population of 89,477, with a margin of error of 10%, consists of 100 respondents, who will be utilized in this investigation. The computation of the Slovin formula is as follows.:

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

$$n = \frac{89.477}{1 + 89.477(0,1)^2}$$

$$n = 100$$

This study employs snowball sampling, which is based on specific criteria: 1) Micro-enterprises that conform to the stipulations outlined in PP Number 7 of 2021. Micro enterprises that utilize payment gateways for transaction processing. The questionnaire, utilized as a data gathering instrument, was developed using Google Forms and subsequently disseminated both online and offline to ensure broader and more equitable distribution. The questionnaire utilized an ordinal scale ranging from 1 to 5 for measurement. Scores were employed to evaluate the responses, with the values (1) strongly disagree, (2) disagree, (3) somewhat agree, (4) agree, (5) definitely agree. This study included three indicators for the financial performance variable, three indicators for the financial literacy variable, and two indicators for the payment gateway variable.

Table 1. Research Variable Measurement Indicators

Variables	Indicator	Measurement
Financial Performance (Y) (Alamsyah, 2020)	1. Increase Sales 2. Capital Increase 3. Increase Profit	Ordinal
Financial Literacy (X1) (Mulyanti & Nurhayati, 2022)	1. Financial Knowledge 2. Financial Behavior 3. Financial Attitude	Ordinal
<i>Payment Gateway</i> (X2) (Suyanto, 2022)	1. Ease of Use 2. Benefits Received	Ordinal

This study employs two methodologies: descriptive statistical tests and Partial Least Squares (PLS) testing. The PLS test comprises three analytical stages, with the initial stage being the evaluation of the outer model or measurement model. This model employs validity testing (convergent validity, average variance extracted, and discriminant validity) and reliability assessment (composite reliability and Cronbach's Alpha). The second analysis pertains to the inner model or structural model, evaluated by R-squared. The third stage involves hypothesis testing, assessed by the T-statistic test.

RESULTS AND DISCUSSION

The questionnaire was administered to 100 respondents, chosen as micro-entrepreneurs by the snowball sampling technique. This study delineates the features of the respondents to elucidate their background. The responses of 100 participants yielded a comprehensive profile of the respondents, as illustrated in Table 2.

Table 2. Respondents' Overview

No	Respondent Overview	Amount	Presentation
Gender			
1	Woman	55	55%
2	Man	45	45%
Amount		100	100%
Age			
1	< 25 Years	17	17%
2	25-50 Years	79	79%
3	> 50 Years	4	4%
Amount		100	100%
Length of Business			
1	< 1 Year	10	10%
2	1-5 Years	53	53%
3	6-10 Years	26	26%
4	10 years	11	11%
Amount		100	100%
Education background			
1	Elementary School/Islamic Elementary School	-	-
2	Junior High School/Islamic Junior High School	3	3%
3	High School/Vocational High School	43	43%
4	D3	19	19%
5	S1	33	33%
6	S2	2	2%

No	Respondent Overview	Amount	Presentation
7	S3	-	-
Amount		100	100%

Outer Model Analysis

The assessment of the outer model is to evaluate validity and reliability. Each construct indicator in the study underwent evaluation for convergent validity as the initial phase of the validity assessment. An indicator is deemed valid if its value exceeds 0.70. The outcomes of Ghozali's (2015) convergent validity assessment are illustrated in Figure 2, demonstrating that all variable indicators in this study are deemed valid, as the Outer Loadings value for each indicator exceeds 0.7.

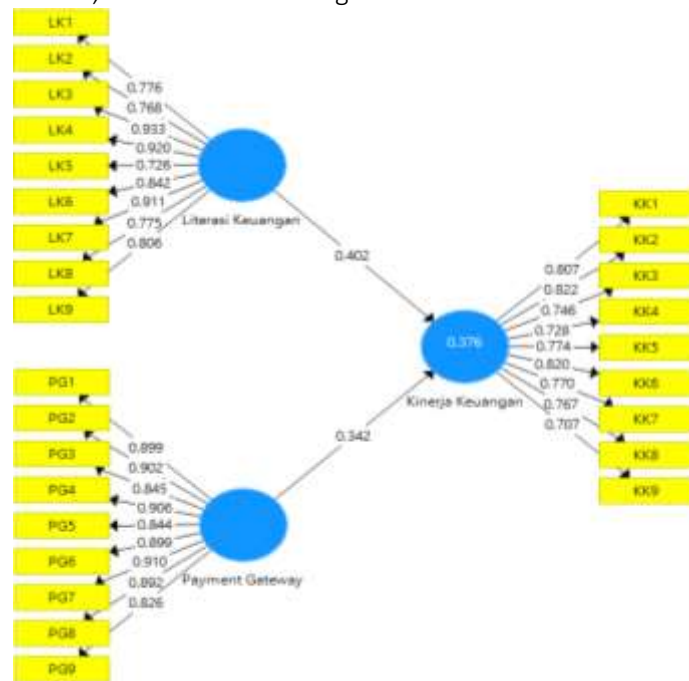


Figure 2. SmartPLS 3.0 Algorithm Results

The second validity assessment involves evaluating the average variance extracted (AVE) value. To determine the extent of variance in a construct derived from its indicators by calculating the error rate. The minimum advised AVE value is 0.50. The AVE value calculation results are presented in Table 3, indicating that all indicators satisfy the set criteria and possess adequate reliability for future testing.

	Average Variance Extracted
Financial performance	0.596
Financial Literacy	0.692
Payment Gateway	0.776

Source: SmartPLS 3.0

The concluding phase of the validity assessment is the discriminant validity test, which involves evaluating the association across variables with the square root of the Average Variance Extracted (AVE). If AVE for each variable exceeds the correlation among variables, the measurement model is deemed to possess strong discriminant validity. The test results for discriminant validity are presented in Table 4, indicating that the estimated model constructs fulfill the necessary criteria.

Table 4. Results of the *Discriminant Validity Test*

	Financial performance	Financial Literacy	Payment Gateway
Financial performance	0.772		
Financial Literacy	0.523	0.832	
Payment Gateway	0.484	0.353	0.881

Source: SmartPLS 3.0

Model reliability testing constitutes the concluding phase in assessing the outer model to confirm the absence of measurement issues. Cronbach's Alpha and Composite Reliability metrics are assessed to accomplish this. The construct is deemed reliable if all latent variable values exhibit Composite Reliability and Cronbach's Alpha of at least 0.70. Table 5 displays the results of the Cronbach's Alpha and Composite Reliability tests, indicating that all latent variables are deemed trustworthy, as each Composite Reliability and Cronbach's Alpha value surpasses 0.70.

Table 5. Results of *Cronbach's Alpha and Composite Reliability Tests*

	Cronbach's Alpha	Composite Reliability
Financial performance	0.917	0.930
Financial Literacy	0.943	0.952
Payment Gateway	0.964	0.969

Source: SmartPLS 3.0

Inner Model Analysis

Upon the estimated model satisfying the Outer Model requirements, the subsequent step is to evaluate the inner model. The assessment of the inner model is conducted by R-squared analysis. The outcomes of the R-squared test are presented in Table 6. An R Square value of 0.376 indicates that the model accounts for approximately 37.6% of the variability in the Financial Performance variable.

Table 6. R-Square (R²) Test Results

	R-Square	Adjusted R-Square
Financial performance	0.376	0.363

Source: SmartPLS 3.0.

Hypothesis Testing

The predicted value for path influence in the structural model must demonstrate significance. The bootstrapping process can yield this significance. The t-statistic is compared to the t-table at an alpha level of 0.05 (5%), which is 1.96, to ascertain significance. The outcomes of the hypothesis testing are presented in Table 7, indicating that in Hypothesis Test 1, which examines the impact of financial literacy on financial performance, there is The T statistic value is 2.278, above 1.96, and the p value is 0.023. According to the t table at 0.050, this indicates a positive influence and statistical significance regarding the impact of financial literacy on the financial performance of micro companies, so H1 is accepted. Evaluating hypothesis 2, specifically the impact of payment gateways on financial performance, has The T statistic value is 2.242, exceeding 1.96, and the p value is 0.025, which is less than the t table value of 0.050. This indicates a positive influence and statistical significance regarding the impact of payment gateways on the financial performance of micro companies, hence validating H2.

Table 7. Hypothesis Testing Results

	<i>Original Sample (O)</i>	<i>Sample Mean (M)</i>	<i>Standard Deviation (STDEV)</i>	<i>T Statistics (O/STDEV)</i>	<i>P Values</i>
LK-> KK	0.365	0.399	0.160	2,278	0.023
PG->KK	0.351	0.335	0.156	2,242	0.025

Source: SmartPLS 3.0

The Influence of Financial Literacy on the Financial Performance of Micro Businesses

The T-test results indicate that financial literacy positively affects the financial performance of micro-enterprises in Banyumas Regency, thereby validating the first hypothesis. Proficient financial acumen among micro-entrepreneurs can enhance their capacity to oversee business money. According to the Resource-Based View (RBV) paradigm, a company's success in acquiring resources and its ability to assimilate and utilize these resources can lead to superior performance.

A high degree of financial literacy among micro business operators enhances budget management, facilitates informed decision-making, improves financial planning and debt management, and increases operational efficiency, thereby potentially augmenting their business's financial performance. According to Mulyanti & Nurhayati (2022), comprehending finance, financial behavior, and financial attitudes can enhance a business's financial performance.. The findings of this study align with the studies conducted by Tuffour et al. (2022) and Alamsyah (2020). Conversely, the findings of this study contradict the conclusions of studies conducted by Riadloh & Nasution (2023) and Pradipta (2022).

The Influence of Payment Gateways on the Financial Performance of Micro Businesses

The t-test results indicate that payment gateways positively impact the financial performance of micro companies in Banyumas Regency, therefore validating the second hypothesis. The findings of this study confirm alignment with the Technology Acceptance Model (TAM), which evaluates technology adoption through specific metrics regarding users' perceptions of ease of use and the extent of perceived benefits.

The utilization of appropriate payment gateways for micro-entrepreneurs influences the efficacy and efficiency of transactions, which can substantially enhance their financial performance. This study found that numerous organizations struggled to enhance their financial performance due to challenges in technology adoption, as company stakeholders perceived the features of the payment gateway as complex and difficult to implement. According to Lestari et al. (2020), the impact of payment gateways on micro-entrepreneurs is substantial due to the convenience of transaction facilitation, which subsequently leads to a rise in their sales revenue. The findings of this study align with the studies conducted by Sari (2023) and Octavina & Rita (2021). Conversely, the findings of this study contradict the research conducted by A. P. Sari (2023) and Riadloh & Nasution (2023).

CONCLUSION

This study concludes that knowing financial literacy and the utilization of payment gateways significantly impact the financial performance of micro-enterprises, as evidenced by research findings and discussions. 1) Financial literacy positively influences the financial performance of micro-enterprises in Banyumas Regency. The payment gateway positively influences the financial performance of micro companies in Banyumas Regency.

The conclusions derived from this study encompass: The findings of this study may enhance the comprehension of financial literacy among micro-entrepreneurs and optimize the financial performance of their enterprises. The findings of this study may motivate entrepreneurs to implement technology-driven payment methods. This study possesses drawbacks, which include: 1) A significant 62.4 percent demonstrated the impact of additional variables, prompting further

investigation into factors beyond those employed in this study. The questionnaire fails to explicitly define a payment mechanism, necessitating the formulation of additional research questions for clarity.

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