



The Influence of Financial Literacy and Financial Management on the Financial Performance of MSMEs (Case Study on the “Mbois” Community in Malang Raya)

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Abstract:

This study aims to analyze the effect of financial literacy and financial management on the financial performance of Micro, Small, and Medium Enterprises (MSMEs) that are members of the “MBOIS” MSME Community in Malang Raya. The research is motivated by the limited financial management capability of MSME actors, despite their significant contribution to regional economic development. Data were collected using a quantitative approach through structured questionnaires distribution to 33 MSME owners and analyzed using multiple linear regression with the assistance of IBM SPSS 25, proceed by validity, reliability, and classical assumption tests. The results indicate that financial literacy has a positive and significant effect on MSMEs’ financial performance, indicating that suboptimal financial management practices remain a major constraint. Simultaneously, financial literacy and financial management are proven to have a significant effect on MSMEs’ financial performance. The implications of this study emphasize the importance of enhancing financial literacy accompanied by practical financial management assistance. These findings are expected to serve as a reference for MSME development programs and future research.

Keywords: Financial Literacy; Financial Management; Financial Performance; MSMEs; MSME Community

1. Introduction

Micro, Small, and Medium Enterprises (MSMEs) play an important and strategic role in Indonesia's economic growth. This can be seen in their ability to survive the monetary crises that have affected the country. There are several reasons why MSMEs are able to remain resilient. Small-scale businesses tend to rely less on imported raw materials in their production processes, and their sources of financing are generally domestic, making them relatively less affected by fluctuations in the rupiah exchange rate. MSMEs also have flexible characteristics, meaning that when they encounter difficulties in running their businesses, they can relatively easily shift to other types of ventures (Budiarto, 2018). At present, MSMEs continue to play a significant role in driving economic growth in Indonesia, and their number increases from year to year. However, this development is still largely reflected in quantitative growth alone. In general, only a small proportion of MSME actors truly understand how to improve their business performance, particularly in financial aspects. This condition reflects the low level of awareness among MSME actors regarding the importance of sound financial management. In fact, financial management is a crucial activity that requires serious attention, as the primary objective of MSME actors is to generate income. An increase in income must be supported by a financial system that is properly recorded, reported, and consistently controlled in a sustainable manner.

According to Brigham and Houston (2012), financial management is the process of organizing and managing an organization's financial activities, which includes financial planning, analysis, and control. Financial management functions as a tool to maximize firm value by minimizing costs and allocating funds efficiently. This highlights the importance of implementing efficient financial management practices. Financial management is a crucial aspect of MSME development. Proper financial management can generate financial information that is useful for decision-making by its users. Given these benefits, MSME actors should be aware that financial management is essential for their businesses. With increasing profits and appropriate decision-making, MSMEs can experience better development and become more independent in managing their finances. However, many MSMEs in Indonesia have not yet implemented sound and proper financial management in their daily operations. One reason is that financial management is often perceived as a routine activity that is not particularly important. Business owners commonly believe that even though financial management is conducted in a simple and irregular manner, their businesses can still operate smoothly and generate profits. This situation is further compounded by a lack of understanding of the importance of financial recording and reporting, which creates additional problems for MSMEs, particularly difficulties in accessing credit. Many MSME actors are still unfamiliar with or do not fully understand the benefits of financial statements such as income statements, statements of financial position (balance sheets), and statements of changes in equity, as they have limited knowledge of financial recording and reporting. Consequently, many MSMEs in Indonesia are considered not to meet banking requirements due to their limited understanding of financial documentation. In fact, financial statements are essential for assessing whether a business is financially sound and for enabling banks to estimate the appropriate amount of credit to be extended to MSME actors. Low attention to the importance of financial management can therefore pose a serious threat to the sustainability of MSMEs. Based on this discussion, it can be concluded that improving inefficient financial management practices is a key factor in ensuring the continued operation and success of MSMEs.

Malang City is known as a region with diverse economic potential in sectors such as tourism, handicrafts, culinary businesses, and creative industries. The rapid growth of Micro, Small, and Medium Enterprises (MSMEs) in Malang has contributed significantly to regional economic development, employment generation, and community income improvement. Alongside this growth, MSMEs in Malang continue to face various challenges, particularly in managing their financial resources effectively. Many MSME actors still experience difficulties in preparing financial records, planning business finances, and making strategic financial decisions, which ultimately affect their business performance and sustainability. Previous studies have shown inconsistent findings regarding the relationship between financial literacy, financial management, and MSME financial performance. Several studies, such as Hanasri et al. (2023) and Rumain et al. (2021), found that financial literacy and financial management positively influence MSME performance. However, other studies, including Anggriani et al. (2023), reported that financial management may negatively affect MSME performance due to limited managerial capability and inadequate financial practices among business actors. These inconsistent findings indicate that the influence of financial literacy and financial management on MSME financial performance may vary depending on the characteristics and conditions of the MSMEs being studied. Therefore, further research is needed to provide empirical evidence in different contexts and regions.

This study focuses on MSMEs within the "MBOIS" MSME Community in Malang because this community represents active and developing MSMEs engaged primarily in culinary, fashion, handicraft, and creative business sectors that operate through collaborative community-based business activities. This study specifically investigates

MSMEs that actively participate in a collaborative entrepreneurial environment characterized by knowledge sharing, networking, mentoring, and business evaluations. The novelty of this study lies in the integration of Human Capital Theory and Resource-Based View (RBV) theory in explaining the role of financial literacy and financial management in improving MSME financial performance within a community-based business ecosystem. This study emphasizes that financial literacy and financial management represent intangible strategic resources and forms of human capital that can strengthen MSME competitiveness and sustainability, particularly in collaborative MSME communities. Furthermore, empirical studies examining financial literacy and financial management specifically within MSME communities in Malang remain limited. Most previous studies focused on broader MSME populations without considering how community interaction, collective learning, and collaboration may influence managerial capability and financial performance. Therefore, this study contributes theoretically by extending the application of Human Capital Theory and RBV in the MSME and practically providing insights for MSME communities regarding the importance of strengthening financial capability as a strategic resource for sustainable business development.

2. Literature Review

Conceptual Model and Hypotheses Development

This study's conceptual framework draws upon both Human Capital Theory and the Resource-Based View (RBV) theory to explain the relationship between financial literacy, financial management, and MSME financial performance. Human Capital Theory emphasizes that knowledge, skills, competencies, and experience possessed by individuals are valuable assets that contribute to productivity, decision-making quality, and business sustainability (Becker, 1993). Within the MSME sector, the financial knowledge and managerial capability of business owners represent important forms of human capital that influence how businesses manage resources and respond to financial challenges.

In addition, the Resource-Based View (RBV) theory explains that organizations can achieve sustainable competitive advantage through the ownership and effective utilization of valuable, rare, inimitable, and organized resources (Rahmatullah et al., 2023). RBV emphasizes that not only physical assets, but also intangible resources such as knowledge, managerial capability, organizational competence, and business experience play important roles in improving organizational performance. In the MSME, internal capabilities become particularly important because MSMEs often face limitations in financial capital, technology, and market access. Therefore, intangible resources such as financial literacy and financial management capability can become strategic resources that support business sustainability and competitiveness.

This study applies the integration of Human Capital Theory and Resource-Based View (RBV) theory to provide a theoretical perspective on how financial literacy and financial management may contribute to MSME financial performance. Financial literacy reflects the knowledge and capability of MSME actors in understanding financial concepts and making financial decisions, while financial management represents the managerial capability of MSME actors in planning, controlling, and allocating financial resources effectively. Both variables are considered strategic intangible resources and forms of human capital that may improve MSME financial performance and sustainability.

Financial Literacy

Financial literacy refers to an individual's ability to read, analyze, manage, and communicate their financial conditions, which may influence their level of well-being (Santiara & Sinarwati, 2023). Furthermore, Vidovicova (2012), as cited in Rumbianingrum and Wijayangka (2020), explains that financial literacy encompasses an understanding of financial products and concepts through the support of information and guidance, enabling individuals to recognize and comprehend financial risks in order to make appropriate financial decisions. Therefore, financial literacy is considered an essential aspect that should be enhanced through financial education initiatives for Indonesian society, allowing individuals to manage their finances wisely and effectively (OJK, 2016). In the context of MSMEs, financial literacy plays an increasingly important role in improving the quality of financial decision-making, particularly amid resource limitations and the high levels of uncertainty faced by business owners.

Empirical evidence largely supports a positive relationship between financial literacy and MSME financial performance. Hanasri et al. (2023) found that financial literacy has a significant positive effect on the financial performance of online-based MSMEs. However, contrasting findings have also been reported. Anggriani (2023)

found that financial literacy does not have a significant effect on MSME performance in Dompu Regency. These mixed results suggest that the influence of financial literacy on financial performance is context-dependent.

H1: Financial literacy has a positive and significant effect on the financial performance of MSMEs when examined partially.

Financial Management

Financial management is a competency possessed by individuals in managing their daily finances, encompassing activities such as planning, budgeting, monitoring, organizing, controlling, acquiring, and storing financial resources (Ubaidillah & Atmini, 2022). In general, financial management can be understood as the procedures and practices involved in managing the financial activities of an entity, ranging from the process of obtaining funds to the utilization of funds in business operations. In this regard, Astute (2019) explains that financial management, as a balancing mechanism between wealth, finance, and capital, involves three primary decision-making activities, namely acquiring funds, utilizing funds, and managing assets. Furthermore, financial analysis constitutes an essential component of financial management because it provides an overview of a company's financial health, both in the present and in the past, thereby serving as a basis for managerial decision-making (Kuswadi, 2005). In the context of micro, small, and medium enterprises (MSMEs), the implementation of sound financial management practices is considered a crucial factor in maintaining business sustainability and improving business performance. Various empirical studies have demonstrated that financial management significantly influences MSME performance. Romain (2021) found that financial management has a positive and significant effect on the financial performance of MSMEs in Malang City. This finding is consistent with the study conducted by Habibi and Mahanani (2022), which revealed that financial management contributes positively to MSME performance, particularly during the COVID-19 pandemic.

H2: Financial management has a positive and significant effect on the financial performance of MSMEs when examined partially.

Financial Performance

Financial performance is a measurement tool used to assess a company's level of success in generating profits and to describe the company's financial condition within a particular period (Putri et al., 2022). Financial performance is generally measured through financial ratio analysis to evaluate the company's financial position and capabilities comprehensively over time. According to Jumingan (2017), financial performance represents a summary of a company's financial condition during a specific period, encompassing aspects related to fund acquisition and cash flow management. Therefore, financial performance serves as an important indicator in evaluating the effectiveness of a company's resource management. Furthermore, financial performance is considered a crucial measure because it reflects a company's ability to survive and grow amid increasingly competitive business environments. In the context of MSMEs, strong financial performance indicates that business owners are capable of managing revenues, costs, and capital efficiently and effectively in order to support business sustainability and growth.

H3: Financial literacy and financial management jointly have a positive and significant effect on the financial performance of MSMEs when examined simultaneously.

3. Method

This study employed a quantitative approach with an explanatory associative research design to examine the causal relationship between financial literacy and financial management on the financial performance of MSMEs. A quantitative approach was selected because the study focuses on hypothesis testing and the objective measurement of relationships among variables using statistical analysis. The population of this study consisted of all active members of the "MBOIS" MSME Community in Malang Raya. The respondents included MSME owners operating in various business sectors, particularly culinary, fashion, handicraft, and beauty-related businesses. This study applied a saturated sampling (census) technique, in which all members of the population were included as research respondents. The use of saturated sampling was considered appropriate because the total population size was relatively small and manageable. A total of 33 MSME owners met the research criteria and were selected as respondents. The criteria used in this study were: (1) MSME owners who were officially registered as active members of the "MBOIS" MSME Community, (2) MSMEs that had been operating for at least one year, (3) MSME owners who actively managed their business operations directly, and (4) respondents who completed the questionnaire properly and completely. Data collection was conducted through a survey method using structured

questionnaires distributed offline to respondents during community activities and direct visits to MSME business locations. The questionnaire used a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree.

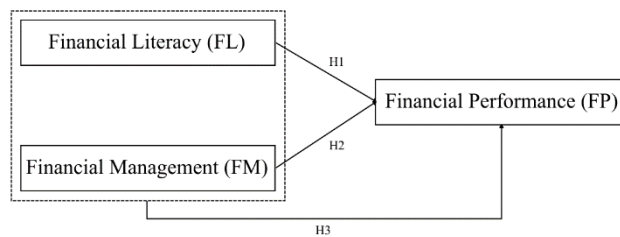
Table 1. Definitions of Variable

Variable	Definition	Indicators	Items
Financial Literacy	According to the Indonesian Financial Services Authority (OJK), financial literacy is a series of activities aimed at improving public knowledge, confidence, and skills in managing finances effectively.	General financial knowledge (Arianti, 2021) Savings (Arianti, 2021) Insurance (Arianti, 2021) Investment (Arianti, 2021)	We understand basic financial concepts such as income, expenses, profit, and loss. Our business finances are managed properly to support daily operational needs efficiently. Business funds are used based on clear needs rather than impulsive decisions. We save money in secure places such as banks or formal financial institutions. Our business has emergency savings for unexpected situations or business downturns. We understand different types of savings, such as regular savings, deposits, and time savings. We understand that insurance can protect businesses from unexpected risks. We know that insurance helps cover losses when business risks occur. Our business currently has insurance protection against future risks. We understand the difference between short-term and long-term investments. We allocate part of our business assets or income for investment purposes. We realize that investment provides potential returns but also involves risks.
Financial Management	Financial management behavior refers to daily financial management practices influenced by knowledge, skills, and income, reflected in budgeting, saving, expense control, and future financial planning (Nugroho Panuntun, 2022).	Consumption (Dew & Xiao, 2011) Cash management (Dew & Xiao, 2011) Savings and investment (Dew & Xiao, 2011) Credit management (Dew & Xiao, 2011)	Business income is the main factor influencing our consumption decisions. We do not rush to purchase operational goods when needed. Every business purchase is made based on prior planning. We purchase goods based on business needs rather than desires. We analyze financial conditions before purchasing inventory. We record all business expenses regularly and systematically. We always allocate part of our profits to savings. We save for long-term purposes, such as business development. We continue to invest regardless of the investment amount. We prefer cash purchases to avoid debt. If we have business debt, we always try to repay it on time. We are able to estimate the repayment period of our debts.
Financial Performance	Financial performance refers to specific measures used to assess a	Business growth (Munizu, 2010; Yanti, 2019)	Sales of our products or services continue to increase. The number of our customers increases over time. Our MSME has customers from outside the local area. Business revenue increases every year.

company's success in generating profit (Husnan, 2013).	Revenue growth (Munizu, 2010; Yanti, 2019)	Business profit continues to grow.
	Annual labor addition (Munizu, 2010; Arfida BR, 2003)	The business is not dependent on loans from banks or other financial institutions. More people are interested in working in our business. We regularly recruit new employees each year according to business needs. Large product orders often require employees to work overtime.
	Market and marketing growth (Munizu, 2010; Ferdinand, 2000)	We consistently conduct business marketing activities. Our products are increasingly recognized by the wider community and reach larger markets. We continuously develop products to expand market coverage.

The collected data were assessed for quality through validity and reliability tests. Validity was examined using Pearson's Product Moment correlation, while reliability was tested using Cronbach's Alpha coefficient. Data analysis was conducted using multiple linear regression with the assistance of IBM SPSS Statistics version 25 to examine both partial and simultaneous effects of independent variables on the dependent variable. Additionally, classical assumption tests, including normality, multicollinearity, and heteroscedasticity were performed to ensure the adequacy of the regression model.

Figure 1. Research Model



Source: Author's Data Processing (2025)

The three constructs reviewed above, financial literacy, financial management, and financial performance, do not occupy independent theoretical positions but form an integrated causal architecture in which cognitive, behavioral, and organizational dimensions of financial capability converge to determine enterprise level financial outcomes. The conceptual framework of this study, as illustrated in Figure 1, formalizes this architecture into three testable causal pathways, namely the direct effect of financial literacy on financial performance (H1), the direct effect of financial management on financial performance (H2), and the simultaneous joint effect of both antecedent variables on financial performance (H3). The first pathway positions financial literacy as a direct antecedent of financial performance through cognitive mechanisms in which knowledge of financial concepts, decision making ability, and confidence in applying financial principles improve the quality of financial decisions made by MSME owner managers.

The second pathway positions financial management as an independent determinant of financial performance through governance mechanisms that include budgeting, cash flow control, and structured financial recording which enhance operational efficiency and resource allocation discipline. The interaction between financial literacy and financial management reflects a reinforcing relationship in which financial literacy strengthens the implementation of financial management practices while effective financial management provides the structure that translates financial knowledge into measurable outcomes, and their convergence ultimately produces optimal financial performance within MSMEs in the MBOIS cluster in Malang Raya.

4. Findings and discussion

The "MBOIS" MSME Community is a community-based organization consisting of Micro, Small, and Medium Enterprise (MSME) actors in the Greater Malang area. Officially established on June 28, 2024, in Malang City, the community was legalized through a notarial deed by Nurul Rahadianti, S.H. and has received formal recognition from the Ministry of Law and Human Rights of the Republic of Indonesia under registration number AHU-

0010172.AH.01.07.TAHUN 2024. The vision of the “MBOIS” MSME Community is to support MSMEs in becoming more competitive, independent, and capable of expanding into national and international markets through collaboration with government institutions and other stakeholders. Its missions include improving MSME professionalism and entrepreneurial character, strengthening business networks, expanding access to capital, technology, and markets, as well as providing advocacy and protection for MSME actors in Indonesia.

The community was established as a collaborative platform that facilitates knowledge sharing, business learning, networking, and entrepreneurial development among MSME owners. The members of the community represent various business sectors, including culinary, fashion, handicrafts, beauty products, and other creative industries. In addition, the community actively conducts business development programs, particularly in marketing, promotion, digital business development, and entrepreneurial capacity building. These collaborative activities create an environment that supports the improvement of managerial capability and financial understanding among MSME actors.

Therefore, the “MBOIS” MSME Community provides a relevant and distinctive context for examining the relationship between financial literacy, financial management, and MSME financial performance. Unlike MSMEs operating individually, MSMEs within this community are characterized by continuous interaction, collective learning, and collaborative business development, which may strengthen the role of financial literacy and financial management as strategic intangible resources in improving business performance and sustainability.

Table 2. Characteristics of Respondent

Measure	Items	Frequency	Percentage(%)
Age	21-30	2	6%
	31-40	15	45,5%
	41-50	12	36,4%
	>50	4	12,1%
Total		33	100%
Gender	Male	7	21,21%
	Female	26	78,79%
Total		33	100%

Source: Author's Data Processing (2025)

The respondents in this study consisted of 33 MSME owners who were active members of the “MBOIS” MSME Community. Based on the age profile, most respondents were between 31–40 years old, accounting for 45.5% of the total respondents, followed by respondents aged 41–50 years with 36.4%. This finding indicates that the majority of MSME actors involved in this study were in productive working age groups with relatively mature business experience. Meanwhile, respondents aged above 50 years accounted for 12.1%, and respondents aged 21–30 years represented 6% of the sample. Based on gender, the majority of respondents were female MSME owners, representing 78.79% of the total respondents, while male respondents accounted for 21.21%.

Validity Test

A research instrument is considered valid when the data obtained through the instrument consistently reflect the actual conditions of the research object being studied (Solimun & Fernandes, 2022).. Thus, the data are considered valid when there is no discrepancy between the information reported by the researcher and the actual conditions observed in the field. Validity testing is conducted by correlating the score of each questionnaire item with the total score to ensure that each item is truly capable of measuring the intended variable. A research instrument is deemed valid when the correlation results demonstrate consistency between the data obtained and the real conditions of the research object (Sugiyono, 2019). The test results show that all corrected item–total correlation values for each statement item across all variables are higher than the corresponding r-table value. In addition, the significance levels for all questionnaire items are below 0.05. Therefore, the statements representing financial literacy (X1), financial management (X2), and financial performance (Y) are declared valid and appropriate for use as research instruments.

Reliability Test

A variable is considered reliable if respondents' answers to the statement items remain consistent over time (Ghozali, 2016). The reliability test results indicate that all variables used in this study have values greater than 0.70. Accordingly, all statement items representing financial literacy, financial management, and financial performance are proven to be reliable and suitable for use in the subsequent stages of data analysis.

Inferential Statistical Tests

a. Normality Test

According to Ghozali (2021), the normality test is conducted to assess whether a regression model contains confounding variables or residuals that are normally distributed. A good regression model is characterized by residuals that follow a normal distribution (Ghozali, 2021). In this study, the One-Sample Kolmogorov–Smirnov method is employed to test the normality of the data. The testing criteria are based on the significance value, whereby the data are considered normally distributed if the Kolmogorov–Smirnov significance value is greater than 0.05, while a significance value below 0.05 indicates that the data are not normally distributed. The test results show that the Kolmogorov–Smirnov significance value is 0.200, which is higher than the 0.05 significance level. Therefore, the data used in this study are considered to be normally distributed.

b. Multicollinearity Test

According to Ghozali (2021), the multicollinearity test is used to determine whether there is a correlation among independent variables in a regression model. A regression model is considered good when the independent variables are not correlated with one another; if correlations exist, the variables are not orthogonal. Multicollinearity testing is conducted by examining the Tolerance and Variance Inflation Factor (VIF) values. A variable is considered free from multicollinearity if its Tolerance value is greater than 0.10 and its VIF value is less than 10.00. Conversely, if the Tolerance value is below 0.10 or the VIF value exceeds 10.00, the regression model indicates the presence of multicollinearity. The results of the multicollinearity test in this study indicate that the tolerance values for both independent variables are greater than 0.10. In addition, the VIF values for the financial literacy and financial management variables are below 10.00. These results indicate that all variables are free from multicollinearity issues.

c. Heteroskedasticity Test

The heteroskedasticity test aims to assess whether there is an inequality in the variance of residuals across observations in the regression model (Ghozali, 2016). The test results show that the significance values for both the financial literacy and financial management variables are greater than 0.05. It can therefore be concluded that none of the variables exhibit heteroskedasticity, and the regression model meets the required assumptions.

Hypothesis Testing

The first multiple linear regression analysis was conducted to examine the effect of financial literacy and financial management on financial performance. The results of this analysis are presented in the following table:

Table 3. Multiple Linear Regression Analysis

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	55,515	8,441		6,577	0,000
Financial Literacy	0,793	0,192	0,619	4,133	0,000
Financial Management	-0,733	0,163	-0,676	-4,512	0,000

Source: Processed primary data, 2025

The coefficient of determination (R^2) is used to determine the percentage of variation in the dependent variable (Y) that can be explained by the independent variables (X). Therefore, to assess the extent to which the model is able to explain variations in the dependent variable, a coefficient of determination test is required.

Table 4. Coefficient of Determination Results

Model	R	R Square	Adjusted R Square
1	0,681	0,463	0,427

Source: Processed primary data, 2025

The effect size (f^2) is used to measure the magnitude of the influence of exogenous variables on endogenous variables within a model. The following table presents the effect size results of this study.

Table 5. F-Test Results (Simultaneous Test)

Model	Sum of Squares	Df	Mean Square	F	Sig
Regression	609,544	2	304,772	12,941	0,000
Residual	706,516	30	23,551		
Total	1316,061	32			

Source: Processed primary data, 2025

H1: Financial literacy has a positive and significant effect on the financial performance of MSMEs when examined partially.

The results of the partial t-test for the financial literacy variable indicate that the calculated t-value exceeds the t-table value ($4.133 > 0.3338$), with a significance level of $0.000 < 0.05$. These findings confirm that financial literacy has a significant effect on the financial performance of MSMEs within the "MBOIS" community. Furthermore, the regression coefficient of 0.619 indicates that a one unit increase in financial literacy is associated with a 61.9% increase in MSME financial performance. This finding demonstrates that financial literacy functions not merely as a supporting competency, but as a major determinant of financial performance among MSME actors.

The positive relationship between financial literacy and financial performance can be explained through the perspective of human capital theory proposed by Gary Becker (1964), which states that knowledge and cognitive abilities contribute directly to individual productivity and decision making quality. In the context of MSMEs, financial literacy enables business actors to understand financial concepts, evaluate business risks, manage cash flows, allocate working capital efficiently, and select financial services appropriate to business needs. MSME owners with adequate financial literacy are therefore more capable of identifying financial inefficiencies, controlling expenditures, and making rational financial decisions that improve business performance.

The influence of financial literacy on MSME financial performance is also supported by the distribution of respondents' answers in the survey data. Based on Table 4.6, the financial literacy variable (X1) obtained a grand mean of 4.0, categorized as "good," with item scores ranging from 2.66 to 4.27 across twelve indicators. The highest score was found in item X1.4, namely "In running our business, we save money in safe places such as banks or official financial institutions," which recorded a mean score of 4.27. This finding indicates that most respondents have implemented formal financial practices by utilizing banks and official financial institutions to manage business funds. Such behavior reflects not only financial awareness, but also the ability to apply financial literacy in daily business operations. The use of formal financial institutions allows MSME actors to reduce liquidity risks, access financing opportunities, and maintain more organized financial records, all of which contribute to improved financial performance.

High scores were also identified in indicators related to financial planning and awareness of formal financial services. These findings demonstrate that respondents' financial literacy is not limited to conceptual understanding, but has been operationalized in practical financial activities, particularly in resource allocation and financial management decisions. This condition supports the argument that financial literacy directly contributes to the quality of financial decision making and business sustainability.

In addition, the characteristics of respondents within the "MBOIS" community further strengthen the relationship between financial literacy and financial performance. As a community based MSME group, the "MBOIS" community provides an environment that supports the exchange of knowledge, collective learning, and peer discussion regarding business and financial management. Such conditions create a social learning environment that reinforces financially responsible behavior among members. Through continuous interaction within the community, MSME actors gain broader exposure to financial knowledge and practical business experiences, thereby strengthening their financial literacy and improving their decision making capacity.

The respondents also demonstrated relatively good levels of economic literacy, particularly in understanding savings behavior, expenditure prioritization, and awareness of formal financial services. These conditions indicate that respondents already possess a sufficient cognitive foundation for rational financial decision making. Consequently, incremental improvements in financial literacy are more likely to produce substantial improvements in financial performance because respondents are able to apply financial knowledge effectively within their existing business operations.

However, despite the generally positive results, the survey also identified several limitations in respondents' financial literacy profiles. The lowest score was found in item X1.9, which relates to the understanding and utilization of insurance as a financial risk management instrument, with a mean score of 2.66. This finding indicates that respondents still have limited understanding regarding risk management mechanisms and the use of more advanced financial instruments. Therefore, although respondents demonstrate strong literacy in savings behavior and basic financial planning, their knowledge regarding financial protection and risk transfer mechanisms remains underdeveloped. This condition suggests that future financial literacy programs should focus not only on basic financial management, but also on financial risk management and insurance literacy to further improve MSME financial performance.

Another important condition supporting the research hypothesis concerns the level of technological readiness among MSME actors within the "MBOIS" community. The high score on item X1.4 indicates that respondents are familiar with formal financial institutions, which indirectly reflects readiness to engage with digital financial services such as mobile banking, electronic payments, and digital financial recording systems. In the current digital economic environment, MSME actors with higher financial literacy are more capable of utilizing financial technology to monitor cash flows, access financing, and expand market opportunities through digital platforms. This interaction between financial literacy and technological readiness strengthens the positive influence of financial literacy on financial performance because financial knowledge enables MSME actors to maximize the benefits of available financial technologies.

The findings of this study are consistent with the research conducted by Hanasri et al. (2023), who found that financial literacy positively affects financial performance by improving the knowledge and analytical capabilities of MSME actors in making financial decisions. Similar findings were also reported by Rusnawati Rusdi and Saharuddin (2022), who concluded that financial literacy, financial attitudes, and financial behavior significantly influence MSME financial performance. In addition, Aribawa (2016) emphasized that financial literacy plays an important role not only in improving short term financial performance, but also in supporting long term business sustainability through strategic financial planning and effective resource management.

Nevertheless, the findings of this study differ from several previous studies conducted by Eresia Eke and Raath (2013), as well as Kusumadewi (2017) and Anggraeni (2016), which did not find a significant relationship between financial literacy and MSME performance. These differences indicate that the effect of financial literacy may vary depending on contextual factors such as business characteristics, institutional support, access to financial services, and the level of technological development within MSME environments. Therefore, the positive effect identified in the present study reflects not only the role of financial literacy itself, but also the supportive social, institutional, and technological conditions present within the "MBOIS" community.

H2: Financial management has a positive and significant effect on the financial performance of MSMEs when examined partially.

The partial t-test results for the financial management variable indicate that the calculated t-value exceeds the t-table value ($4.512 > 0.3338$), with a significance level of $0.000 < 0.05$. These findings demonstrate that financial management has a statistically significant effect on the financial performance of MSMEs within the "MBOIS" community. However, the regression coefficient of -0.676 indicates a negative relationship, suggesting that an increase in financial management activities is associated with a decline in MSME financial performance. This finding represents an important result of the present study because it suggests that the implementation of financial management practices has not yet been able to improve business performance optimally.

The negative relationship between financial management and financial performance can be explained through several interconnected theoretical and empirical mechanisms. Financial management does not solely refer to financial knowledge, but also includes the implementation of financial practices in daily business operations. The adoption of more formal financial management practices, such as bookkeeping, budgeting, and tax reporting, frequently increases administrative burdens, time allocation, and operational complexity. For MSME actors with limited accounting competencies and restricted access to professional assistance, these conditions may reduce short term business performance because organizational resources are redirected toward administrative activities

rather than core business development. This phenomenon can be explained through the concept of the formalization cost paradox, namely a condition in which the transition from informal financial practices to formal financial systems generates adjustment costs that temporarily suppress business performance.

This interpretation is further supported by the distribution of respondents' answers on the financial management variable (X2). The financial management variable obtained a grand mean of 4.2, which falls within the "very good" category, with item scores ranging from 4.0 to 4.5. Nevertheless, the lowest score was found in item X2.2, namely "When needing goods for operations, we do not rush into purchasing them," which recorded a mean score of 4.0. Although still categorized as "good," this score indicates that some respondents have not yet demonstrated optimal behavioral control in purchasing decisions. In contrast, other indicators such as X2.4 and X2.5 achieved the highest scores of 4.5, which relate to purchasing based on business needs and conducting financial condition analysis before making purchases. This pattern indicates an inconsistency between conceptual understanding of financial management and the actual behavioral implementation of financial practices in daily business activities.

These findings indicate the existence of a gap between financial knowledge and financial behavior. According to Humaira (2018), financial management behavior is influenced not only by knowledge but also by habits, psychological tendencies, and environmental conditions. MSME actors may understand financial management principles but still fail to implement them effectively because of limited managerial experience, risk avoidance behavior, or the use of business funds for nonproductive purposes. Under such conditions, increased financial management activities do not necessarily improve financial performance because the behavioral and managerial foundations required for effective implementation remain insufficient.

Furthermore, within the financial performance variable (Y), the lowest score was identified in item Y1.8, namely "We routinely recruit new employees every year according to business needs," which recorded a mean score of 3.5. The low score on this indicator suggests that most MSMEs within the "MBOIS" community have not experienced significant business growth, particularly in terms of workforce expansion. The disparity between high financial management scores and weak business growth indicators demonstrates that the implementation of financial management practices has not yet generated substantial improvements in organizational capacity or business development.

The findings of this study are consistent with the research conducted by Anggriani et al. (2023), which found that financial management and financial inclusion had a significant negative effect on MSME performance in Dompu Regency. Their study explained that limited infrastructure, restricted access to formal financial institutions, and weak financial recording systems reduced the effectiveness of financial management practices. Similar conditions may also exist within the "MBOIS" community, where the implementation of formal financial management practices generates administrative and compliance costs without corresponding improvements in financing access, operational efficiency, or market expansion.

On the other hand, the findings of the present study differ from those reported by Wahyudiati (2017), who found that financial management positively affects MSME performance. This difference suggests that the effectiveness of financial management depends heavily on implementation quality, managerial capability, and institutional support. As explained by Febriana (2021), financial management includes activities related to obtaining, allocating, and controlling business funds in order to achieve organizational objectives. However, the effectiveness of these activities is strongly influenced by the behavioral and managerial competencies that support their implementation.

This interpretation is reinforced by the findings of Suindari and Juniariani (2020), who argued that financial management can improve business performance only when accompanied by adequate understanding, behavior, and managerial capability. Therefore, the negative coefficient identified in this study should not be interpreted as evidence that financial management is inherently detrimental to MSME performance. Instead, the finding reflects the existence of a capability gap, namely a condition in which MSME actors engage in financial management activities at a level that exceeds their behavioral and managerial capacity to implement them effectively. Consequently, efforts to improve MSME financial performance should not focus solely on increasing financial management activities, but should also strengthen behavioral discipline, managerial competence, and institutional support systems to ensure that financial management practices can be implemented effectively and sustainably.

H3: Financial literacy and financial management jointly have a positive and significant effect on the financial performance of MSMEs when examined simultaneously.

The results of the F-test show that the calculated F-value of 12.941 exceeds the critical F-table value of 3.32. This finding indicates that financial literacy and financial management simultaneously have a significant effect on the financial performance of MSMEs within the "MBOIS" community. The result also demonstrates that the combined model consisting of financial literacy and financial management provides a stronger explanation of MSME financial performance than each variable independently.

The significance of the simultaneous test reflects the interrelated relationship between financial literacy and financial management as two complementary dimensions of MSME financial capability. Financial literacy represents the knowledge and understanding of financial concepts, while financial management reflects the implementation of that knowledge in business operations and financial decision making. Both dimensions are closely connected and jointly contribute to financial performance improvement.

MSME actors with strong financial literacy but weak financial management practices may understand financial concepts without being able to apply them effectively in business operations. Conversely, MSME actors who carry out financial management activities without sufficient financial literacy may implement financial practices mechanically without adequate analytical understanding. Therefore, the integration of financial literacy and financial management becomes an important factor in achieving optimal financial performance because each dimension strengthens the effectiveness of the other.

This interpretation is consistent with the findings of Romain (2021), which indicate that financial literacy and financial management simultaneously influence financial performance. The study also shows that both variables provide significant contributions, both partially and simultaneously, to improving financial performance outcomes. The consistency between the present findings and previous studies strengthens the empirical evidence that financial literacy and financial management form an integrated framework in shaping MSME financial performance across different contexts.

In addition, the simultaneous significance of these variables has important implications for policy and intervention design. Efforts to improve MSME financial performance should not focus solely on financial literacy education or financial management practices independently. Instead, a comprehensive approach that integrates both dimensions is required. Programs that only emphasize financial literacy without strengthening financial management practices may not generate optimal results. Similarly, financial management training without adequate financial literacy development may limit the effectiveness of implementation.

The F-test result, reflected in the F-value of 12.941 and supported by the coefficient of determination (R^2), indicates that the combined contribution of financial literacy and financial management provides substantial explanatory power for MSME financial performance. Therefore, MSME development programs, financial coaching initiatives, and government capacity building activities targeting the "MBOIS" community and similar MSME groups should adopt integrated strategies that simultaneously enhance financial knowledge, strengthen financial management competencies, and support the institutional conditions necessary for improving organizational performance.

Despite these contributions, several limitations of this study should be acknowledged. First, the respondents were limited to members of the "MBOIS" MSME community. As a result, the demographic, sectoral, and socioeconomic characteristics of the respondents may not fully represent the broader MSME population. The relatively homogeneous characteristics of the sample, influenced by shared community membership and geographic proximity, may reduce the diversity of perspectives and introduce potential selection bias. Second, the data collection process was conducted within a relatively limited period. This condition restricts the ability of the study to capture changes in financial literacy, financial management practices, and financial performance over time. Since this study employed a cross sectional approach, the analysis only explains relationships observed at a single point in time and cannot establish causal relationships. In addition, possible changes caused by seasonal business cycles, macroeconomic conditions, or policy developments outside the observation period were not captured in this study.

Third, several reference sources used in developing the research instrument may reflect theoretical frameworks and empirical contexts that differ from the current conditions of Indonesian MSMEs. This difference may affect the construct validity of the measurement instruments used in the study. Therefore, future research should further evaluate the suitability of reference sources with the operational realities of community based MSMEs in Indonesia. The findings of this study are specific to the "MBOIS" MSME community and cannot be generalized to other MSME communities with different structural, cultural, geographic, or institutional characteristics. The contextual nature of the sample requires careful consideration before extending these findings

to broader MSME populations. Further studies involving more diverse and heterogeneous MSME communities are necessary to strengthen the generalizability of the findings.

5. Conclusion and recommendation

Conclusion

Based on the results of the study and the interpretation of the data analysis, it can be concluded that financial literacy and financial management significantly influence the financial performance of MSMEs within the “MBOIS” MSME Community in Greater Malang. The findings indicate that financial literacy has a positive and significant effect on MSME financial performance, meaning that MSME actors with better understanding and knowledge of financial concepts tend to achieve better financial performance. This condition reflects the importance of financial literacy in supporting appropriate financial decision-making, business planning, and sustainable business management among MSME actors.

Meanwhile, financial management was found to have a significant but negative effect on financial performance. These findings indicate that although financial management practices influence MSME financial performance, the implementation of financial management among respondents may not yet be fully optimal. In several cases, financial management practices that are not supported by adequate managerial capability, financial understanding, or business readiness may lead to less effective financial decision-making and potentially affect business performance negatively.

Furthermore, the simultaneous test results demonstrate that financial literacy and financial management jointly have a significant effect on MSME financial performance. This finding confirms that both variables play an important role in supporting the sustainability and financial success of MSMEs within the “MBOIS” MSME Community. Therefore, improving financial literacy accompanied by more effective financial management practices is considered essential for strengthening MSME competitiveness and long-term business sustainability.

Recommendation

The findings of this study are expected to provide both theoretical and practical contributions for various stakeholders. However, this study has several limitations, particularly related to the relatively small number of respondents and the focus on MSMEs within a single community environment, namely the “MBOIS” MSME Community in Greater Malang. In addition, this study only examined financial literacy and financial management variables in explaining MSME financial performance. Therefore, future studies are recommended to explore additional variables that are relevant to the characteristics of MSMEs within the MBOIS community context.

1. For future researchers, it is recommended to incorporate variables such as technological readiness, digital financial adoption, business innovation capability, entrepreneurial orientation, and access to financing, as these factors are highly relevant to the current development of MSMEs within the MBOIS community. Many MSME actors have started utilizing digital platforms, social media marketing, digital payments, and online marketplaces in their business activities, indicating that technological readiness may influence business performance alongside financial literacy and financial management. Future studies are also encouraged to apply control variables such as gender-based MSME leadership, business scale, and business sector classification to obtain a more comprehensive understanding of the factors affecting MSME financial performance.
2. For MSME practitioners, particularly members of the “MBOIS” MSME Community, this study can serve as an evaluative reference for improving business performance through more effective financial management and increased financial literacy. MSME actors are encouraged not only to focus on operational activities but also to improve their capability in financial recording, budgeting, cash flow analysis, and digital financial management. In addition, MSME communities are expected to provide more business training programs related to financial literacy, digital business adaptation, and financial technology utilization to strengthen the sustainability and competitiveness of MSMEs in the future.

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