

**Effect of Financial Literacy and Financial Inclusion on Business Operation  
(Study Case SMES di Klambir Lima)**

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**Abstract**

*This study aims to analyze the influence of financial literacy and financial inclusion on the performance of Small and Medium Enterprises (SMEs) in Klambir Lima. This research employs a quantitative approach using a survey method involving 100 SMEs as the sample. Primary data were collected through questionnaires covering aspects of financial literacy, financial inclusion, and company performance, while secondary data were obtained from SME financial reports and other official documents. Descriptive analysis results indicate that the level of financial literacy among SME owners and managers is moderate, with an average score of 3.4 on a Likert scale of 5 points. Financial inclusion is also at a moderate level with an average score of 3.6. Multiple linear regression analysis shows that financial literacy ( $\beta = 0.45$ ,  $p < 0.05$ ) and financial inclusion ( $\beta = 0.35$ ,  $p < 0.05$ ) have a significant impact on company performance, with the resulting regression model having an R-squared of 0.56. This study concludes that financial literacy and financial inclusion significantly affect the performance of SMEs in Klambir Lima. SME owners and managers who have a good understanding of finance and access to formal financial services can make better financial decisions, manage risks more effectively, and improve company performance. This study suggests the need for comprehensive financial education programs and policies that support financial inclusion to help SMEs optimize their potential and achieve greater success.*

**Keywords:** Financial literacy, Financial Inclusion, Company Performance, SMEs, Klambir Lima

**INTRODUCTION**

Global developments that give rise to discourse on globalization in various aspects of life have long been developing. Globalization that occurs in various fields including business provides many challenges that need to be considered and answered by companies. Many significant changes have occurred such as increasingly sophisticated technology, increasingly fierce competition, increasingly critical customers, and other factors that have contributed to the company having to revise the strategies that have been implemented previously. All organizations have a culture, but not all organizational cultures are equally strong in influencing the behavior and actions of employees. If an organization has a strong culture, SME actors will provide greater loyalty and commitment than SME actors in organizations that have a weak culture.

The ongoing empowerment process has not fully provided increased authority to employees. All matters regarding decision-making are in the authority of a Head of Government and employees still have to refer to instructions given by someone more senior in carrying out work. Entrepreneurial marketing is a term often associated with marketing activities in businesses that have limited resources and must rely on creative and uncomplicated marketing tactics that rely on the use of personal social networks (Sari et al., 2022). Implementation of Entrepreneurial Marketing can generate more value for customers and organizations. Entrepreneurial marketing

also explains how decision-makers can use limited resources to optimally solve problems (Tan & Syahwildan, 2022).

Theoretically, entrepreneurial marketing should generate innovation because the key to entrepreneurial marketing is limitations and creativity in dealing with them. According to Hilmawati & Kusumaningtias, (2021), innovation is a dynamic process in which adaptation is needed to deal with changes in resources, technology, or the economy or even changes in company expectations of innovation. Innovation is a company's efforts through the use of technology and information to develop, produce, and market new products for the industry. Therefore, ensuring entrepreneurial marketing has an impact on increasing innovation power (Idawati & Pratama, 2023).

In addition to having an impact on innovation, entrepreneurial marketing also has a positive impact on competitive advantage. Competitive advantage is the ability of a company to achieve economic benefits above the profits that competitors can achieve in the market in the same industry (Kusuma et al., 2022). Businesses that have a competitive advantage always can understand changes in market structure and can choose effective marketing strategies. While in Indonesia, there are still many business actors who do not understand the concept of marketing strategy for the sake of their business continuity. Various studies have shown that businesses in Indonesia still face many obstacles, ranging from financing, expensive production costs, and the lack of marketing strategies.

Currently, the culinary business is not only culinary but also leads to tourism (Andriyani & Mulyanto, 2022). Several reports also show that Indonesia's culinary industry will continue to grow positively, therefore many large investors are starting to look into the culinary sector. The entry of medium and large-scale investors is one of the threats for IL and micro-scale culinary actors (e.g., culinary businesses). Therefore, this study aims to obtain the latest data on whether businesses can apply marketing as one of the important points in driving competitiveness. The data is fundamental to see the extent of business readiness to compete with medium and large investors in the competition for the growing market. For academics, this research will be an expansion of the latest literature on aspects of business management in the culinary field; for policymakers, this paper can be used as a basis for decision-making related to business empowerment, and for il business actors, this paper can be used as an auto-criticism to continue to innovate in maintaining and improving competitiveness.

The concept of social commerce emerged in 2005 amid the increasing commercial use of social networking sites and many other social media sites (Widianingsih et al., 2023). It ushered in a new form of electronic commerce (e-commerce) (Darmawan et al., 2021). Unlike traditional e-commerce where consumers usually interact with online shopping sites separately, social commerce involves online communities that support user interaction and user-generated content (Laila & Sihotang, 2022). A recent survey showed that social commerce in the US has generated 5 billion dollars in sales, with 9 billion expected by 2014 and 15 billion by (Nindy, 2021). The importance of social commerce has made it the subject of numerous studies. For example, previous research states that online reviews on social media are an important source of information that aids consumer decision-making (Suyono, 2022).

Jumady et al. (2022) showed that social support from online friends is very important in encouraging consumers to adopt social commerce. Leatemala, (2023) advocates that social

media allows consumers to engage with brands in a very new way; hence, companies must change marketing strategies from attracting consumer awareness (pre-purchase stage) to bonding with consumers after their purchase (post-purchase stage). To harness the power of social commerce, it is important to study the process and uniqueness of how consumers behave in this setting (Saputro et al., 2022).

Small and Medium Enterprises (SMEs) play an important role in economic growth and reducing the unemployment rate (Widarti, 2007). SMEs are an important part of the economy in any country such as Indonesia. Facts show that the employment opportunities created by SME groups are far more than the labor that can be absorbed by large companies. Therefore, SMEs are expected to continue their efforts to deal with the growing unemployment rate. By absorbing a lot of labor, it means that SMEs also have a strategic function in efforts to help the government fight poverty (Putri et al., 2022). The contribution of this group is very influential on the national economy. SMEs as one of the main pillars of the national economy with a self-sufficiency perspective have great potential to improve people's welfare.

The uniqueness of resource capability is a company's effort to optimize resources where these resources are relatively superior when compared to competitors (Natsir et al., 2023). The unique resource capabilities of a company can be grouped into tangible assets, intangible assets, and organizational assets. These three groups can be reduced to two groups only if the Asset Organization is included in intangible assets. Intangible assets for example include office buildings, and machinery, while intangible capabilities can be in the form of competent human resources competence, established business reputation, strategic business location, and many more. Utilizing the uniqueness of resource capabilities will encourage companies to immediately achieve better business levels make competitive advantages available and, at the same time, create superior value for customers (Lindananty & Christina, 2022). This understanding is supported by Pearce and Robinson who explain the existence of three important resources needed by a company, namely tangible assets, intangible assets, and organizational assets (Maulana, 2022).

## **RESEARCH METHOD**

This research is a quantitative study with a survey approach. This study aims to analyze the effect of financial literacy and financial inclusion on company performance in Small and Medium Enterprises (SMEs) in Klambir Lima. The population in this study were all SMEs operating in Klambir Lima. The sample was taken using a purposive sampling technique with the criteria of SMEs that have been operating for at least 3 years and have simple financial statements. The number of samples taken is 100 SMEs. The data used in this study consist of primary data and secondary data:

1. **Primary Data:** Primary data is obtained through questionnaires distributed to SME owners or managers. This questionnaire consists of questions related to financial literacy, financial inclusion, and company performance.
2. **Secondary Data:** Secondary data was obtained from SME financial reports, official documents, and relevant literature. Financial Literacy: Measured using a 5-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree) covering aspects of basic financial knowledge, financial management skills, and understanding of financial products.

3. Financial Inclusion: Measured using a 5-point Likert scale that includes access to formal financial services, use of financial products, and sustainability of access to financial services.
4. Company Performance: Measured using performance indicators such as sales growth, profitability, and operational efficiency. Descriptive Statistics: To describe the profile of respondents and the distribution of questionnaire answers.
5. Validity and Reliability Test: To ensure that the instruments used in this study are valid and reliable.
6. Multiple Linear Regression Analysis: To test the effect of financial literacy and financial inclusion on company performance.

The questionnaire used in this study consisted of three main sections:

The collected data will be analyzed using the following statistical techniques:

The regression model used is as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \epsilon$$

Where:

Y = Company Performance

X1 = Financial Literacy

X2 = Financial Inclusion

$\beta_0$  = Constant

$\beta_1, \beta_2$  = Regression Coefficient

$\epsilon$  = Error Term

## **RESULTS AND DISCUSSION**

After researching 100 SMEs in Klambir Lima using a survey method with a questionnaire as the main instrument, we obtained quite comprehensive data related to financial literacy, financial inclusion, and company performance. The following are the main findings of this study:

**Respondent Profile** Respondents in this study were mostly SME owners (70%) and SME managers (30%). The average age of respondents was 35-50 years old with most having a high school (45%) and university (40%) level of education. Most SMEs have been operating for more than 5 years (60%), with varying business types, ranging from trading, and services, to production.

**Financial Literacy** the results of the descriptive analysis show that the level of financial literacy among SME owners and managers in Klambir Lima is at an intermediate level. The average financial literacy score is 3.4 on a 5-point Likert scale. Respondents generally have a

basic knowledge of finance, including an understanding of the importance of financial record-keeping and the ability to manage cash flow. However, their knowledge of more complex financial products, such as investment and insurance, is low. Financial Inclusion Financial inclusion is measured through access, use, and sustainability of formal financial services. The average score for financial inclusion is 3.6 on a 5-point Likert scale. Most SMEs have access to basic banking services such as savings and loans (80 percent), but the use of more sophisticated financial products such as microcredit, insurance, and digital financial services is limited. Only 35 percent of SMEs actively use digital financial services.

Company Performance Company performance is measured through indicators such as sales growth, profitability, and operational efficiency. On average, company performance shows moderately positive results with an average score of 3.5 on a 5-point Likert scale. SMEs that have good financial literacy and financial inclusion tend to report higher performance than those that do not. Regression Analysis Multiple linear regression analysis was used to examine the effect of financial literacy and financial inclusion on firm performance. The regression results show that financial literacy ( $\beta = 0.45$ ,  $p < 0.05$ ) and financial inclusion ( $\beta = 0.35$ ,  $p < 0.05$ ) significantly affect firm performance. The resulting regression model has an R-squared of 0.56, which means that 56% of the variation in firm performance can be explained by financial literacy and financial inclusion.

The findings of this study indicate that financial literacy has a significant influence on firm performance. SME owners and managers who have a good understanding of finance can make wiser decisions regarding the financial management of their business (Nainggolan, 2023). Knowledge of financial record keeping, cash flow management, and an understanding of costs and revenues enables them to optimize existing resources and identify growth opportunities. In addition, financial literacy helps in reducing financial risk, as more financially savvy owners and managers tend to be more cautious in taking loans and better able to manage debt.

However, there is still a gap in financial literacy regarding more complex financial products. Many SMEs are yet to utilize products such as investment and insurance that can help secure the future of their business and mitigate financial risks. This points to the need for more comprehensive training and education programs that cover not only financial basics but also more complex financial products.

Financial Inclusion Financial inclusion has also been shown to have a significant influence on firm performance. Access to formal financial services enables SMEs to obtain the necessary capital for expansion and investment (Br Ginting S et al., 2023). The use of banking services, such as savings and loans, helps SMEs manage cash flow and meet working capital needs. In addition, financial inclusion encourages the use of digital financial services that can improve operational efficiency and expand markets. However, the findings of this study show that while most SMEs have access to basic banking services, the use of more sophisticated financial products is still low. The lack of use of digital financial services, for example, suggests that many SMEs may not yet realize the full benefits of financial technology (fintech) (Ismail et al., 2024). This points to the need for efforts to improve digital and financial literacy among SMEs so that they can utilize these technologies to improve their business efficiency and performance.

Company Performance Company performance measured through sales growth, profitability, and operational efficiency shows that SMEs in Klambir Lima that have good financial literacy and financial inclusion tend to be more successful. SMEs that are more financially literate and have good access to financial services can optimize their resource management, identify growth opportunities, and manage risks better. This supports the theory that financial literacy and financial inclusion are important keys to business success, especially for SMEs that often face challenges in accessing the financial resources and information needed to grow.

**Practical and Policy Implications** The findings of this study have several important practical and policy implications. First, there is an urgent need to improve financial literacy among SMEs. Training and education programs tailored to the needs of SMEs can help improve their knowledge and skills in managing finances. Second, there is a need for policies that promote financial inclusion, particularly in providing wider access to more sophisticated financial services and financial technology. Banks and other financial institutions can play an important role in providing products that suit the needs of SMEs and providing education on how to utilize them. In addition, governments and other stakeholders need to collaborate to create an enabling environment for financial inclusion. This can include developing better financial infrastructure, supportive regulations, and programs that facilitate SMEs' access to formal financial services. By doing so, SMEs can more easily obtain the necessary capital, better manage their financial risks, and ultimately improve their business performance.

## CONCLUSION

Based on the survey results, there are six small and medium-sized enterprises involved. It helps small and medium-sized enterprises, entrepreneurs, and senior managers reduce risks related to innovation and human resources. And the second type allows access to capital and financial services for small and medium-sized enterprises, which is essential for expansion and operational efficiency.

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