

## THE INFLUENCE OF FINANCIAL LITERACY ON THE FINANCIAL PERFORMANCE OF MSMEs

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### Abstract

This study aims to analyze the influence of financial literacy on the financial performance of Micro, Small, and Medium Enterprises (MSMEs) in Indonesia using a Systematic Literature Review (SLR) approach. The study was conducted through the search and analysis of various relevant scientific literature indexed by SINTA. The results show that financial literacy has a positive and significant influence on improving the financial performance of MSMEs. Business actors with a good level of financial literacy are able to plan and control cash flow, manage capital use, and make appropriate financial decisions. Understanding financial concepts also helps business actors separate personal and business finances, prepare simple financial reports, and improve operational efficiency. In addition, financial literacy encourages MSMEs to be more adaptive to economic changes and able to optimally utilize business opportunities. Thus, improving financial literacy is a strategic step in strengthening the competitiveness and sustainability of MSMEs, as well as making a positive contribution to sustainable national economic growth.

**Keywords:** Financial literacy, financial performance

### Introduction

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in national economic development as they are the primary drivers of job creation, income equality, and growth in Indonesia's Gross Domestic Product (GDP). According to data from the Central Statistics Agency (2023), MSMEs contribute over 60% to national GDP, with over 64 million businesses operating. Despite their significant role in economic growth, many MSMEs face challenges in financial management, limited capital, and poor managerial skills, which impact their business performance (Martadinata & Pasek, 2024; Rosliyati & Iskandar, 2022). One of the key factors that influences the success of MSMEs in managing their business is financial literacy, namely a person's ability to Understanding and applying financial concepts for sound decision-making. This understanding encompasses cash management, investment, financial planning, and the use of financing sources (OJK, 2022). A 2022 Financial Services Authority survey showed that the financial literacy rate of the Indonesian public had only reached 49.68%, while the financial inclusion rate reached 85.10%. This significant difference indicates that despite increasing access to financial services, understanding of financial management remains relatively low,

especially among MSMEs.

Several previous studies have shown that financial literacy has a positive relationship with the financial performance of MSMEs. Research conducted by Amri & Iramani, 2018, in Ambon found that financial literacy significantly impacted business performance. Similar results were obtained by Kusumaningrum et al., 2023, in West Java, indicating that nearly half of the variation in MSME performance was explained by financial literacy levels. Margareta et al., 2023, furthermore, emphasized that a sound financial understanding not only improves performance but also supports long-term business sustainability. In addition to financial literacy, other studies have also highlighted the importance of managerial skills, financial management, and the use of digital technology as supporting factors for the success of MSMEs (Fitrianita & Sinarwati, 2024; Syamlan & Baroya, 2025). However, various studies agree that financial literacy remains the primary foundation for businesses to optimize financial management, increase competitiveness, and strengthen financial performance (Kusumaningrum et al., 2023; Rachmadini et al., 2025). Thus, financial literacy is not merely the ability to understand financial concepts but also encompasses the skills to apply them effectively to achieve business sustainability. Therefore, this research is crucial for systematically reviewing the results of various previous studies to determine the extent to which financial literacy influences the financial performance of MSMEs in Indonesia, as well as the supporting factors that strengthen the relationship between the two.

## Theoretical Framework

### Financial Literacy

Financial literacy is the ability of business owners to understand, manage, and use financial information effectively in their daily business activities. Financial literacy encompasses knowledge, skills, and understanding that help individuals make wise economic decisions that are oriented toward business sustainability. According to (Martadinata & Pasek, 2024), financial literacy is a crucial factor influencing the success of MSMEs because a good understanding of finance enables business actors to plan, manage, and monitor their finances in a more targeted manner. Similarly, (Fitrianita & Sinarwati, 2024) explain that improving financial literacy plays a role in strengthening the ability of MSMEs to optimize capital use and utilize financial technology for operational efficiency. In the context of Micro, Small, and Medium Enterprises (MSMEs), financial literacy is a crucial aspect because it plays a role in improving business actors' abilities in managing capital, planning finances, and controlling business expenses and income. MSMEs with high financial literacy are able to prepare simple financial reports, understand the difference between personal and business finances, and make wiser investment and financing decisions. (Kusumaningrum et al., 2023) found that MSMEs with a high level of financial

literacy tend to manage their finances more efficiently, thereby maintaining business stability. Research (Margareta et al., 2023) shows that financial literacy has a significant impact on the sustainability of MSMEs, as a good understanding of finance helps entrepreneurs adapt to economic changes and minimize the risk of business failure. Meanwhile, (Kusumaningrum et al., 2023) proves that financial literacy has a direct impact on improving MSME financial performance, particularly in terms of cost control, capital efficiency, and investment planning. Thus, financial literacy can be considered intellectual capital that provides a strong foundation for MSMEs to make appropriate and strategic financial decisions in managing their businesses.

### **Financial performance**

Financial performance reflects a business's success in managing its resources to achieve economic goals and improve the well-being of its stakeholders. In the context of MSMEs, financial performance reflects a business's ability to manage capital, manage revenue, and effectively utilize assets to generate profits and maintain business sustainability. In practice, the financial performance of MSMEs is significantly influenced by the ability of business owners to manage their finances effectively. (Rachmadini et al., 2025) state that MSME financial performance depends not only on external factors such as market conditions and government support, but also on the internal capabilities of business owners, such as financial literacy and financial management. MSMEs that understand how to manage their finances will be better able to reduce costs, maximize revenue, and maintain business continuity. Research (Martadinata & Pasek, 2024) confirms that strong managerial skills and financial literacy can improve financial performance through more systematic financial planning and control. Furthermore, (Fitrianita & Sinarwati, 2024) found that the use of financial technology supported by an understanding of financial literacy also strengthens performance. MSME finance in Karangasem Regency. Therefore, financial performance can be viewed as the end result of business actors' ability to apply financial knowledge to optimize business resources.

### **The Relationship between Financial Literacy and Financial Performance**

Conceptually, financial literacy is closely related to financial performance, as knowledge and skills in financial management will influence the quality of business decisions made by MSMEs. Business owners with a sound financial understanding will find it easier to plan, manage cash flow, control costs, and evaluate their financial results. With good financial literacy, business owners can make more effective and efficient financial decisions, ultimately contributing to improved business performance. (Rosliyati & Iskandar, 2022) showed that nearly half of the variation in MSME financial performance can be explained by the level of financial literacy. (Rosliyati & Iskandar, 2022) also found that financial literacy positively impacts financial management capabilities and business efficiency. Research (Margareta et al., 2023) confirms

that financial literacy not only impacts increased profits but also long-term business sustainability. This means that business owners with sound financial knowledge and skills are able to create more targeted financial strategies to support their business growth. However, several studies have also shown that the influence of financial literacy on financial performance can be moderated by other factors. (Syamlan & Baroya, 2025) found that the influence of financial literacy is stronger when business actors possess strong managerial skills and are able to utilize digital financial technology in their operations. This suggests that financial literacy is a key foundation, but its effective implementation requires support from other factors such as management skills and technological innovation. From these various research findings, it can be concluded that financial literacy plays a crucial role in determining the financial performance of MSMEs. The higher a business owner's financial literacy, the better their ability to plan, manage, and evaluate their business finances. Financial literacy enables MSMEs to be more adaptive in facing economic dynamics, more careful in making financial decisions, and more efficient in using resources, thus positively impacting sustainable financial performance.

### **Research Methodology**

This research uses the Systematic Literature Review (SLR) method, a research approach that involves examining and reviewing various relevant literature to gain an in-depth understanding of the research topic. This approach was chosen so that researchers could summarize the results. previous research and found a pattern of relationship between financial literacy and the financial performance of MSMEs. The data used in this study is secondary data derived from various scientific articles and academic journals. The data collection process was conducted through a literature search using the keywords "financial literacy," "financial performance," and "MSMEs." The initial search yielded approximately 1,000 articles related to these topics. Next, a screening process was conducted to ensure that the literature used was truly relevant to the research focus. The screening results yielded approximately 200 articles that matched the topic under study, based on their titles and abstracts. Further selection was conducted to ensure that the articles used were accredited and indexed in official systems such as SINTA. This selection resulted in 45 journals meeting the eligibility criteria. The next stage involved a final selection process, considering the suitability of the article content to the research variables, namely financial literacy and MSME financial performance. Based on this selection, 10 key journals were identified as the most relevant and supportive of this research study. These 10 journals were then used as primary sources in the discussion to strengthen the theoretical foundation and clarify the relationship between the two variables under study.

Figure 1 Publish or Perish tool help

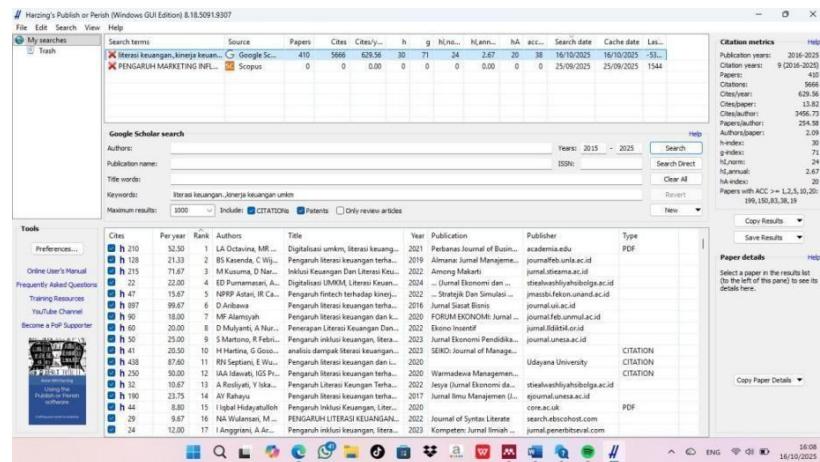


Table 1 following: Table 1 Article Topics

No.	Year	Topic	Journal	Sinta	Amount Citation
1	2019	Literacy to MSME Performance	Finance Almana Journal Management and Business	3	128
2	2024	Digitalization of MSMEs, Literacy to	Journal of Economics & Sharia Perform ance MSME Finance in the New Normal Era of the Covid-19 Pandemic	4	22
3	2023	Influence Finance, Inclusion Finance, and Attitudes towards Financial Management of MSMEs in Kapanewon Godean, Sleman Regency	Literacy Journal of Economic Ocean & Business	3	51

4	2022	Influence Literacy Financial Impact on the Performance Tasikmalaya Embroidery MSMEs	Journal Economics of Sharia Economics	4	32
5	2025	Influence Finance, Inclusion ce, and Financial Attitudes Towards Performance Business and Sustainability MSMEs in Indonesia	Journal Scientif ic Management,Busi ness Economics, Entrepreneurship	5	1
6	2024	Role Literacy Managerial Skills Optimizing Performance MSMEs	Financial and in Finance Amulet (Accou nting Student Scientific Journal)	4	9

No.	Year	Topic	Journal	Sinta	Number of Citation s
7	2024	Influence Literacy Finance, Technology, Finance, and Venture Capital Performance Finance MS MEs in Karangasem Regency	JIMAT (Scientific Journal of Accounting Students)	4	1
8	2023	Influence Literacy Financial Performance And Sustainability MSMEs Sura baya Cake	Innovative Of Social Science Research	5	1

9	2025	Influence Literacy, Financial Management and Applications Performance FinanceMS MEs in Jombang Regency	Financial On Management and Accounting Research (JUMPA)	5	-
10	2025	Influence LiteracyT he Impact of Finance on the Performance of MSMEs in Waiheru Village, Ambon City	INNOVATIVE: Journal Of Social Science Research	5	-

**Table 2. Factors that influence the financial performance of MSMEs**

No	Researcher (Year)	Research Sample	Variables/Factors Studied
1	<b>Rachmadini et al. (2025)</b> - MSMEs in Indonesia <i>Journal of Economics</i> 45	- MSMEs in Indonesia <i>Journal</i> (2016–2024 Study)	Financial literacy, financial inclusion, and financial attitudes towards performance as well as business sustainability
2	<b>Margareta et al. (2023)</b> - <i>Journal Management Surabaya</i>	MSMEs in Surabaya City	Literacy finance to business performance and sustainability
3	<b>Sanduan &amp; Newspaper Head (2025)</b> - <i>Ambon Economic Journal</i>	MSMEs in Villag Waiheru, Ambo City	Financial technology, literacy, And inclusion financial impact on MSME performance
4	<b>Arifuddin et al. (2023)</b> - <i>Journal of Accounting and Finance</i>	MSMEs in Cafe in Kendari City	Financial technology, and venture capital on financial performance
5	<b>Martadiani &amp; Rumini (2020)</b> - <i>Badung Economic Journal</i>	MSMEs in Badung Regency, Bali	Literacy finance to business performance and sustainability
6	<b>Alamsyah (2020)</b> - <i>Forum Gorontalo Economy</i>	Furniture MSMEs in Gorontalo City	Financial literacy and quality of financial management on financial performance

7	Adriani <b>Suadnyana</b> (2024) <i>Buleleng Scientific Journal</i>	& MSMEs - Buleleng Regency, Bali	in Literacy financial performance	finance Andability managerialon
8	Purnamasari <b>Asharie</b> (2024)- <i>Journal of    Digital Economics and    Business</i>	& MSMEs - digital inWest Java	Literacy AndThe impact of MSME digitalization on financial performance in the new normal era	finance
9	Chusnial Baroya et al. (2025) - <i>Journal of    Jombang Regency    ombang Financial Management</i>	MSMEs in Jombang Regency	Financial literacy, management, and financial applications to financial performance	financial literacy, and financial management
10	Hilmawati <b>Kusumaningtias</b> (2021) - <i>Journal of Inclusive    Accounting</i>	& - Micro-sector MSMEs in East Java	Financial literacy and financial inclusion tosustainabi lity and business performance	lity and business performance

The analysis in Table 2 shows that previous studies involved diverse samples spread across various regions of Indonesia, from Java to Sulawesi. The results of these studies. Indicates that there are various variables or factors that have the potential to influence the financial performance of MSMEs, including financial literacy, financial inclusion, financial attitudes, managerial skills, financial technology, financial management, and business capital.

### **Financial Literacy**

Financial literacy is the primary variable most frequently studied in various studies related to MSME performance. Conceptually, financial literacy refers to the ability of individuals or business actors to understand, manage, and make appropriate financial decisions to achieve long-term economic goals. According to (Rachmadini et al., 2025), financial literacy plays a crucial role in shaping prudent financial behavior and increasing the efficiency of business resource management. MSMEs with high levels of financial literacy tend to be able to prepare financial reports systematically, plan cash flow effectively, and avoid capital mismanagement. Research by (Margareta et al., 2023) and (Amri & Iramani, 2018) also confirms that improving financial literacy can strengthen business resilience through risk adaptation, investment management, and data-driven decision-making. Thus, financial literacy functions not only as knowledge but also as a strategic skill that directly influences MSME financial performance.

### **Financial Inclusion**

Financial inclusion refers to the extent to which individuals or businesses can access, understand, and use formal financial products and services such as savings, credit, insurance, and investments. According to research (Rachmadini

et al., 2025), financial inclusion plays a crucial role in expanding financing opportunities, particularly for MSMEs that struggle to obtain capital from conventional banking institutions. Improved access to financial institutions helps MSMEs increase working capital capacity, accelerate asset growth, and improve business cash flow. Furthermore, financial inclusion contributes to increased financial literacy by encouraging businesses to better understand the financial products they use. Indirectly, financial inclusion acts as a catalyst for improving MSME financial performance by optimizing the use of funds and diversifying business capital sources.

### **Financial Attitude**

Financial attitudes describe a person's perspective on money management and financial decision-making. This variable reflects the values, habits, and beliefs that influence a person's economic behavior. According to (Rachmadini et al., 2025), positive financial attitudes include disciplined saving, careful spending, and responsibility. The use of debt contributes significantly to a business's financial stability. MSMEs with a mature financial mindset are better able to control cash flow, avoid consumer debt, and allocate funds efficiently for productive needs. This research aligns with findings (Rachmadini et al., 2025), which suggest that financial behavioral factors are often the key differentiator between thriving MSMEs and those that fail to maintain their performance.

### **Managerial Skills**

Managerial competence refers to the ability of MSMEs to plan, organize, direct, and control business activities. (Martadinata & Pasek, 2024) emphasize that managerial competence is closely related to the efficient management of financial and non-financial resources. Entrepreneurs with strong managerial skills are able to adapt business strategies to market conditions, regularly monitor financial performance, and make decisions based on data analysis. This study also shows that effective management can strengthen the influence of financial literacy on financial performance. In other words, even high levels of financial literacy, without adequate managerial competence, will not maximize its benefits.

### **Financial Technology**

Digitalization is a crucial factor shaping the financial performance of MSMEs in the modern era. According to Rachmadini et al. (2025) and Purnamasari & Kunci (2024), the use of financial technology, such as digital bookkeeping applications, electronic payment systems, and fintech-based financial services, has significantly impacted MSME operational efficiency. Utilizing this technology allows business actors to record transactions in real time, monitor cash flow, and analyze financial performance more quickly. Furthermore, financial technology also opens access to alternative funding, such as peer-to-peer lending, which can strengthen a business's capital structure. Thus, the integration of financial literacy and the use of financial technology has been proven to accelerate improvements in MSME financial performance.

## Financial Management

This variable refers to the ability of business actors to organize, control, and evaluate daily financial activities. Based on findings (Syamlan & Baroya, 2025), good financial management will impact the stability of a company's cash flow and liquidity. MSMEs that implement a neat record-keeping system, have clear financial planning, and conduct regular evaluations of financial reports tend to demonstrate better performance. This factor also links financial literacy with achieved financial results. The higher the literacy, the better the financial management capabilities which ultimately strengthen business performance.

## Venture capital

Capital is a fundamental component that influences business sustainability. (Kusumaningrum et al., 2023) found that business capital directly influences MSMEs' ability to generate profits, expand production, and improve operational efficiency. The availability of sufficient capital helps businesses optimize production and marketing activities. However, this study also highlights that capital will not have a maximum impact without good financial literacy. Business owners need to have the ability to manage and utilize capital so that its use is targeted and contributes to improved financial performance.

## Conclusion

This study aims to analyze the influence of financial literacy on the financial performance of MSMEs based on a systematic review of ten SINTA-indexed journals. The study results indicate that financial literacy has a positive and significant impact on improving MSME financial performance. A sound financial understanding enables business actors to more effectively manage capital, control cash flow, and make decisions oriented towards business sustainability. Besides being a form of knowledge, financial literacy also serves as a strategic skill that can improve business efficiency and competitiveness. Supporting factors such as managerial skills, financial management, and the use of financial technology also strengthen the relationship between financial literacy and MSME financial performance. Overall, the results of this study emphasize the importance of improving financial literacy among MSMEs as a strategic step to strengthen business resilience and national economic growth. Future research is expected to expand the study by including more variables such as financial behavior, financial inclusion, and digital innovation to better understand the interrelationships between these factors.

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