



## Financial Literacy and Digital Innovation on MSMEs Performance Through Business Sustainability at Bulak Fish Center MSMEs in East Surabaya

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### ABSTRACT

Micro, Small and Medium Enterprises (MSMEs) currently require good financial performance for sustainability and decision making. In the future, MSMEs will only develop in terms of quantity but have not been matched by good quality. For this reason, financial literacy and digital innovation are things that support the performance of MSMEs. Finding out (1) how financial literacy affects MSME performance, (2) how digital innovation affects MSME performance, and (3) how financial literacy affects MSME performance through business sustainability are the goals of this study (4) the influence of digital innovation on MSME performance through business sustainability. The population in this study are all owners and managers of East Surabaya Bulak Fish Center (SIB) MSMEs who run a trading business in food, drinks and souvenir accessories. The study sample consisted of seventy-five individuals who were managers or owners of businesses. Saturated sampling was the method of sampling, and partial least squares (PLS) analysis was the method of analysis. The findings of this study show that (1) financial literacy increases the contribution to the performance of MSMEs, (2) digital innovation increases the contribution to the performance of MSMEs, (3) financial literacy increases the contribution to the performance of MSMEs through business sustainability, (4) digital innovation increases the contribution to MSME performance through business sustainability.

## **INTRODUCTION**

MSMEs or commonly referred to as Micro, Small, and Medium-Sized Businesses comprise the largest segment of the Indonesian economy which can accelerate the rate of economic growth (Sinaga et al., 2020). MSMEs, which should be the backbone of the national economy, have also been eroded, especially during this pandemic. MSMEs contribute 61% (sixty one percent) to (GDP) with the capacity to take in up to 60% (sixty percent) of the total investment and 97% (ninety seven percent) of the labor force. Still, in reality, MSMEs are also quite seriously affected. Data recorded at the Indonesian MSME Association found that 30,000,000 (thirty million) businesses experienced bankruptcy out of sixty-three million businesses (Victoria, 2020). According to Fauzan (2021), other facts show that MSME participation in GDP in 2020 was the lowest participation since 2010, namely 37% (thirty-seven percent).

This significant decline in GDP shows an indication of a decline in the performance of MSMEs, especially during the pandemic. Furthermore, business performance which continues to decline requires MSME players to decide to reduce the number of employees due to the lack of customers. From data released by the Republic of Indonesia's Ministry of Manpower, there are more than 500,000 (five hundred thousand) workers who have lost their jobs. This shows that the performance of MSMEs is not good, which can be seen from declining sales accompanied by increasingly small profits, resulting in layoffs or employee reductions.

MSME Performance measures an individual's degree of accomplishment in their endeavors, encompassing sales, capital, workforce size, market share, and steadily increasing profits (Wahyudiati & Isroah, 2018). However, the current pandemic has caused the performance of MSMEs to decline drastically, it has been proven that sales are decreasing because business actors cannot work optimally and the limited space for movement ultimately has implications for the profits earned also decreasing. In fact, according to Bastian (2020), performance measures are often seen from how much profit is earned.

To sustain their business activities, MSMEs must think about the right way or steps for the success of their business. It cannot be denied that MSMEs often experience delays in their development. Small and Medium Enterprises are really needed to absorb labor, but the fact is that there are many problems experienced by MSMEs such as HR capacity, legality, investor It is challenging for MSMEs to compete with big businesses due to issues with funding, marketing, and operational management (Abor & Quartey, 2018).

## **THEORETICAL REVIEW**

It is hoped that previous research related to this research can become material and input to support research which was previously carried out by:

Meilia Dwi Maulani and Dhani Ichsanuddin Nur (2023) in research entitled "Education on Understanding Financial Literacy to Build Investment Awareness in the Community" where the aim of this research focuses on providing education as a foundation for choosing investments, and it's also hoped that in the future the community will be able to implement the practice. effective and efficient financial management in everyday life. This study's methodology makes use of a socialization technique regarding education about investment in the futures trading industry.

Devinda, Eko Purwanto and Tri Kartika (2023) in their research entitled "The Effect of Digital Capability and Digital Literacy on Business Performance with Employee Innovation as A Mediating Variable at PT Pegadaian", where the aim of this study is to ascertain how PT Pegadaian employees' digital literacy and capabilities affect company performance through innovation. This study uses a convenience sampling strategy, is quantitative, and employs Smart PLS for data analysis. The analysis's findings demonstrate that increasing a company's digital literacy and capabilities does not directly improve its performance. To increase employee creativity and boost business performance, digital capabilities and digital literacy are essential.

Sintia Dewi and Dhani Ichsanuddin Nur (2022) in research entitled "Financial Behavior of Food MSMEs in Culinary Tourism Centers" with research objectives that emphasize the influence of financial management behavior for food MSMEs in SWK Taman Bungkul Surabaya and employed the technique of distributing questionnaires to 51 (fifty one) MSME traders in Taman Bungkul. The questionnaires covered financial literacy, financial attitudes, and personality. According to study findings, personality, financial attitudes, and financial literacy all significantly and favorably influence how people manage their money. The study's findings indicate that personality, financial attitudes, and financial literacy all have an impact on 61% (sixty-one percent) of financial management behavior.

Eko Purwanto and Muhadjir Anwar (2022), conducted research with the title "Application of The Edu Finance Model to Improve Financial Literature in Creative Industry in Sidoarjo District". The purpose of this study is to track the evolution of financial literacy-related MSME issues. In order to establish the much-needed solid business foundation, MSMEs must receive financial literacy training in a methodical, integrated, and long-lasting way. The study's findings indicate that women fall into the low category for financial literacy among MSMEs based on five different variables. Therefore, by emphasizing the

significance of planning and evaluation that generates feedback for increasing financial literacy, an appropriate model is required to increase financial literacy knowledge in MSMEs in the creative industry in Sidoarjo Regency.

### ***Theory of Behavioral Finance***

Nofsinger's According to Financial Behavior Theory (2001), financial behavior is the study of how people truly act when they are in financial situations. specifically researching the ways in which firms, financial markets, and psychological factors affect financial decisions. The two ideas presented make it abundantly evident that financial behavior is a psychologically influenced theory that explains how people relate to or invest their money. Behavioral finance studies how the human brain interacts when faced with uncertainty when making financial decisions. The most common human traits are (fear, anger, greed, selfishness) placing emphasis on our decisions about money. Reason, reason (long-term consequences of actions taken) and emotions (considering actions) are all interrelated. Behavioral finance is a science that studies how humans respond and react to existing information in an effort to make decisions that can optimize the rate of return by paying attention to the risks inherent therein (elements of human attitudes and actions are determining factors in investing).

### ***Financial Literacy***

Financial literacy is the value of knowledge that a person has regarding financial management procedures that can be implemented to increase the amount of money owned and is strongly related to individual behavior, habits and the value of internal and external influences. High financial literacy provides encouragement for related individuals to be more productive in managing finances and reduces consumptive behavior that is wasting or spending funds on things that are not actually needed (Susanti & Ardyan, 2019). Financial literacy in a real business context is the company's capability to control the financial resources used in various company operational activities including production costs (raw materials and labor), promotion costs and distribution costs where all of this financing is managed as well as possible in order to generate profit value. which is satisfactory and in accordance with company goals (Eniola & Entebang, 2015). According to Rahayu & Musdholifah (2017), financial literacy is briefly defined as an individual's ability to make effective and productive decisions for future financial management.

### ***Digital Innovation***

Innovation is a product or service that is perceived by consumers as a new product or service. Innovation can be interpreted as a breakthrough related

to new products. According to Hinings' research (2018) Digital innovation is an innovation that uses digital technology to support companies in carrying out their operations. Other experts state in their research that digital innovation is innovation that occurs through digital technology (Agostini et al., 2020). In the elements of community-based MSME digital business, there are elements of e-business to make it easier for entrepreneurs to run a business. The elements of e-business include business actors, media tools or resources, activities and goals and objectives (Wijoyo & Hadion, et al., 2020).

### ***MSMEs Performance***

MSMEs have a significant role in the movement of the economy because through MSMEs, jobs are created to reduce unemployment, which is also an important problem faced by developed and developing countries (Kulathunga et al., 2020). MSME performance is defined as the ability of MSMEs to manage their business from time to time to generate profit or profit. The higher the level of performance of an MSME, the MSME is successful in carrying out its strategy. Performance can be known as a result through a good business management mechanism by reviewing the arrangement of recording financial statements (Amri & Iramani, 2018). Based on research by Kasendah & Wijayangka (2019) defines SME performance as the results of work achieved by MSMEs as measured by whether or not the company's targets and objectives have been set previously in a certain period of time. Good and optimal performance is the goal of all MSMEs.

### ***Business Sustainability***

Business sustainability is the company's success rate in innovating, managing employees and managing various aspects needed to support the successful achievement of MSME targets so that the level of existence and business sustainability can be maintained in the long term (Fitria et al., 2018). MSME business sustainability is the action of business actors to maintain, develop and protect resources and meet the needs that exist in a business through creative ways, implemented to maintain the sustainability of MSME businesses (Widayanti et al., 2017). MSME sustainability is the continuity of the long-term period of MSMEs in carrying out their business turnover to survive in the face of intense business competition and dynamic changes in consumer behavior from time to time (Shields & Shelleman, 2015).

### ***Relationship Between Variables***

#### ***The Influence of Financial Literacy on MSMEs Performance***

Through a high level of financial literacy, business actors can know how to optimize business operational financing so that the profit value obtained can be

maximized (Adomako et al., 2017). Apart from that, high financial literacy capabilities also provide understanding for business actors to carry out various investment interests that can be carried out to add value to the productivity of MSMEs because by understanding the basic concepts of finance, business actors are more aware of aspects that are proven to be less productive, which can be eliminated and then replaced with aspects. more productive business continuity so that the level of MSME performance is higher (Mukhtar & Rahayu, 2019).

*The Influence of Digital Innovation on MSMEs Performance*

Results of research conducted by Effiom & Edet (2020); Lestari et al., (2017), who conducted research on digital innovation in the MSME sector, stated that digital innovation or payment gateways have a positive and significant influence on MSME performance. Research conducted by Lee et al., (2020) regarding digital innovation in the banking sector states that digital innovation provides better asset growth, loans and profits in the banking world. Then study by Fitriasari et al., (2021) that looked at factors that were nearly the same as digital innovation, namely digital innovation, stated that digital innovation had no relationship or no influence on the performance of MSMEs.

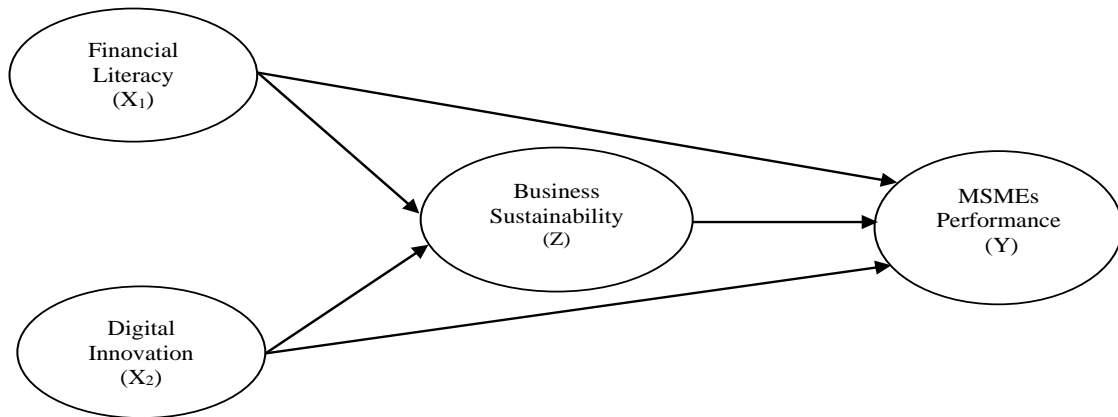
*The Influence of Financial Literacy on MSMEs Performance Through Business Sustainability*

A person with strong financial literacy can provide users with a more significant understanding of the basic concepts of financial management where the amount of funds used for business purposes needs to be increased in order to reduce funds that are not used or just stored away (idle costs) in order to increase productivity which will be beneficial for business sustainability. Understanding financial literacy also encourages MSME players to determine managerial decisions in an appropriate and directed manner, both decisions made for current conditions and managerial decisions for future periods so that business sustainability remains stable and tends to increase (Rumini & Martadiani, 2020).

*The Influence of Digital Innovation on MSMEs Performance Through Business Sustainability*

MSME players can utilize technology for business activities so that business performance is better, the use of technology in business activities can also maintain business sustainability in the long term. It is expected of MSME players to be able to use technology for business purposes in order to improve business performance. The performance of MSME will improve with improved business management, which will ultimately lead to long-term business sustainability.

Taking into account the context, problem description, and literature review that has been presented. So, the following thoughts are formulated to clarify the framework used as a basis for conducting research based on related indicators. The research framework that was built can be seen in Figure 1 below:



**Figure 1 Conceptual Framework**

The hypothesis of this research is as follows:

- H1: Financial literacy has a positive influence on performance of the Bulak Fish Center MSMEs in East Surabaya.
- H2: Digital innovation has a positive influence on performance of the Bulak Fish Center MSMEs in East Surabaya.
- H3: Financial literacy has a positive influence on performance through the business sustainability of the Bulak Fish Center MSMEs in East Surabaya.
- H4: Digital innovation has a positive influence on performance through the business sustainability of the Bulak Fish Center MSMEs in East Surabaya.

## **METHODOLOGY**

According to the method, This kind of study examines the cause and effect relationship between the independent and dependent variables using quantitative research methods (causal relationship). Research that follows systematic, planned, and well-structured guidelines from the outset to the development of the research design is known as quantitative research. According to another definition, quantitative research is any type of research that heavily relies on numbers, beginning with the collection of data and continuing through its interpretation and presentation of findings (Sugiyono, 2020).

## ***Data Types and Sources***

### ***Primary Data***

According to Umar (2008), Primary data are those that are gathered directly from the source, usually from people. Examples of this type of data include the answers to questionnaires or the outcomes of interviews, which are typically completed by researchers. The performance data of MSMEs is the main type of data required for this study. A questionnaire that the researcher had created and the respondents had answered provided the source of this data. The individuals who responded to the survey were all the Bulak Fish Center MSMEs in East Surabaya.

### ***Secondary Data***

In this research, secondary data is used to support the research results, namely in the form of data from the Bulak Fish Center MSMEs in East Surabaya which is related to this research.

## ***Population and Sample***

### ***Population***

Sugiyono (2011:80) defines a population as an item or subject with specific qualities that are chosen for analysis and conclusion-drawing. The study's population is the Bulak Fish Center MSMEs in East Surabaya, namely the owners and managers of the Bulak Fish Center MSMEs, amounting to 75 respondents.

### ***Sample***

According to Djarwanto and Subagyo (2000: 108) a sample is a portion (the number is less than the total population) of the population whose characteristics are to be studied and is thought to represent the entire population. Saturated sampling or census is the sampling technique used. As per Sugiyono (2008: 122), saturated sampling or census is defined as a technique for sample determination in which all members of the population serve as samples. This knowledge makes it clear that saturated sampling, also known as census, is a sampling method that uses every member of the population. Since it is not feasible to use a sample in this study due to the small (limited) population, the researcher took a census, or the same number of samples as the population, namely 75 respondents who are owners and managers of the Bulak Fish Center MSMEs in East Surabaya.

## ***Data Analysis Method***

According to Sujarweni (2019), the quantitative Utilizing statistics, the data analysis method involves reading tables, graphs, or numbers that are



available, analyzing them on different statistical bases, and then performing multiple interpretations or descriptions of the data. Sugiyono (2019) states that data analysis activities in quantitative research include grouping data based on variables and respondent types, tabulating data based on variables from all respondents, presenting data for each variable studied, performing calculations to address the formulation of the problem, and performing calculations to test study hypotheses. Data analysis is the process of reducing data into a form that is simpler to read and understand in order to answer research questions and reveal specific social phenomena. Research requires data analysis and interpretation and also requires more flexible assumptions.

### ***PLS (Partial Least Square) Analysis***

This study makes use of partial least squares (PLS) as a data analysis method. PLS is a structural equation modeling (SEM) model that uses a component-based or variance-based approach. This research uses SmartPLS software for data analysis because it has a complex model and few samples. Using a random doubling technique, SmartPLS bootstraps. Therefore, there won't be any issues with the assumption of normalcy. Furthermore, SmartPLS is applicable to studies with small sample sizes because it uses bootstrapping, which eliminates the need for a minimum number of samples. The measurement model, also known as the outer model, and the structural model, also known as the inner model, make up the two submodels of PLS-SEM analysis.

### ***Hypothesis Test***

Intervening regression analysis identifies which variables can be identified as variables that have a direct effect (direct effect) and variables that have an indirect effect (indirect effect) (Sugiyono & Susanto, 2019:454). In this research, SEM PLS analysis was used which is a further part of the regression analysis using the SmartPLS 4 software program. Significant decision making criteria  $< 0.05$ .

## **RESULTS**

### ***Description of Research Objects***

According to (BPS, 2023) geographically, the Bulak Fish Center is located on Jalan Sukolilo 7 No 24, Kedung Cowek Village, Bulak District, Surabaya City. The Bulak Fish Center is located in the north of Surabaya City, at coordinates 7°13'54" South Latitude and 112°47'13" East Longitude. According to (Surabaya City Fisheries Service, 2012), the Bulak Fish Center is at the end of the fishing village, has a distinctive building shape resembling a boat with white sails flowing out. The Bulak Fish Center consists of an area of 4,573 m<sup>2</sup>

and has a building area of 5,428 m<sup>2</sup>. According to (BPS, 2023) in terms of topography, the Bulak Fish Center is located at an altitude of 4 meters above sea level and has a sloping topography to the bottom, with an average air temperature of 23-35°C. The climate of Bulak District is influenced by rainfall ranging from 524.4 mm per year. The expanse of territory in Bulak District consists of land with the following territorial boundarie regions are Kenjeran district (north), Madura strait (east), Mulyorejo district (south), and Tambak Sari district (west).

**Description of Respondent Characteristics**

The results obtained from 75 respondents are presented in table 1 respondent characteristic.

**Table 1 Respondent Characteristic**

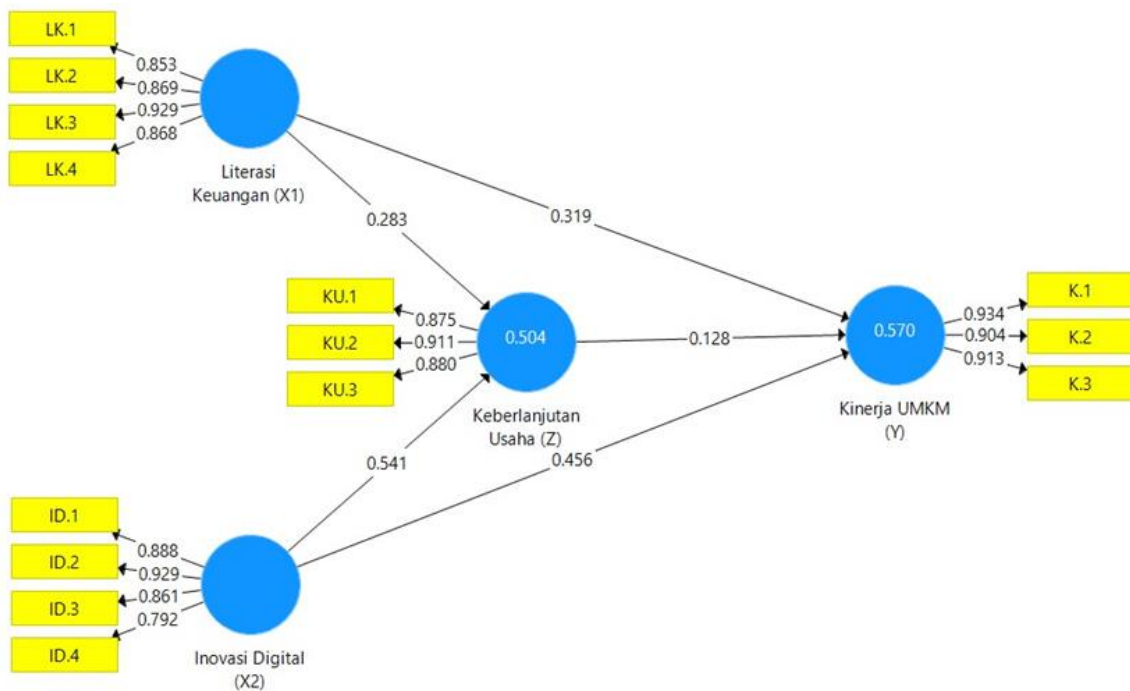
<b>Respondent Characteristic</b>	<b>Frequency</b>	<b>Percentage (%)</b>
<b>Business Ownership</b>		
1. Owner	50	66.7
2. Manager	25	33.3
<b>Age</b>		
1. 25 - 30 years old	18	24.0
2. 27 years old	1	1.3
3. 30 years old	2	2.7
4. 31 - 40 years old	27	36.0
5. 41 - 50 years old	18	24.0
6. >50 years old	12	12.0
<b>Gender</b>		
1. Male	52	69.3
2. Female	23	30.7
<b>Education</b>		
1. Junior High School	66	88.0
2. Senior High School	9	12.0
<b>Marital Status</b>		
1. Single	17	22.7
2. Married	58	77.3

Based on the table above, it can be seen that the proportion of participants characteristics based on business ownership status at the Bulak Fish Center MSMEs shows that the owner respondents are 66.7% while the management respondents are 33.3%. This means that the majority of traders and entrepreneurs at the Bulak Fish Center MSMEs make the Bulak Fish Center their main source of livelihood to fulfill their daily needs. The proportion of participants characteristics based on age was found to be predominantly aged

31-40 years, amounting to 36.0% of respondents. So, this shows that the traders and entrepreneurs at the Bulak Fish Center are of productive family age where most traders and entrepreneurs still have many family burdens and responsibilities in terms of daily needs, children, and other things. The percentage of respondent characteristics based on gender shows that male respondents are 69.3% while female respondents are 30.7%. Thus, the respondents who were sampled in this study were more dominated by male respondents, where most men in the area prefer to work directly because they want to ease the burden on their families and want to get money from their own work for other purposes. The percentage of respondent characteristics based on marital status shows that the largest category of respondent is junior high school, which is 88.0%. This means that most people in the Bulak Fish Center MSMEs prefer to work rather than continue their education to a higher level. The percentage of respondent characteristics based on marital status shows that the category of respondents who are married is 81.4% and those who are single is 18.6%. This shows that most traders and entrepreneurs in the Bulak Fish Center MSMEs are married where they prefer to get married and then work and continue their lineage.

**Analysis Results Using the PLS-SEM Model**

Model analysis in this research uses the PLS-SEM method. Analysis using the PLS-SEM method includes 2 stages, namely the reflective measurement model evaluation stage as well as the stage of structural model evaluation. As well as hypothesis testing as follows:



**Figure 2 Results of Research Model**

**Outer Model Testing (Measurement Model)**

Outer model or measurement model that defines how each indicator relates to variables through validity and reliability tests.

**Validity Test**

Validity is a measure that shows the level of validity or error of a questionnaire instrument. If the questionnaire is correct or valid, the measurement results are likely to be correct. The high and low validity of the instrument shows the extent to which the collected data does not deviate from the description of the intended variable. Conversely, a less valid instrument means it has low validity. Average Variance Extracted (AVE) value, which is a value that shows the magnitude of the indicator variance in the latent variable. Convergent AVE values greater than 0.50 indicate good validity for latent variables. A good AVE model if the AVE value of each construct is greater than 0.50.

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

Variable	Average Variance Extracted (AVE)	Cut-off	Information
Financial Literacy (X1)	0.775	0.50	Valid
Digital Innovation (X2)	0.755		Valid
Business Sustainability (Z)	0.790		Valid
MSMEs Performance (Y)	0.841		Valid

From the table above, the test results show that the AVE value for each construct (variable) has a value greater than 0.50 (above the required value) where the variable that has the highest AVE value is the MSME Performance variable of 0.841.

**Reliability Test**

Reliability test is conducted to prove the accuracy, consistency, and accuracy of the instrument in measuring constructs. Tests are measured using Composite Reliability and Cronbach's Alpha. Construct reliability is declared reliable if it has a Composite Reliability value of more than 0.70 and Cronbach's Alpha of more than 0.60.

**Table 3 Composite Reliability and Cronbach's Alpha**

Variable	Cronbach's Alpha	Cut-off	Composite Reliability	Cut-off	Information
Financial Literacy (X1)	0.904	0.60	0.932	0.70	Reliable
Digital Innovation (X2)	0.891		0.925		Reliable

Business Sustainability (Z)	0.868	0.919	Reliable
MSMEs Performance (Y)	0.905	0.941	Reliable

From the table above, the test results show that the constructs (variables) of the variables of financial literacy, digital innovation, business sustainability, and MSME performance Composite Reliability has a value greater than 0.70 and Cronbach's Alpha has a value greater than 0.60 so it can be concluded that all variables are declared reliable.

#### *Inner Model Testing (Structural Model)*

The structural model or inner model describes the relationship between independent latent variables (exogenous) and dependent latent variables (endogenous). Structural model analysis is carried out to ensure that the structural model built is robust and accurate.

#### *Determination Coefficient Test (R-Square)*

The coefficient of determination or R-Square (R<sup>2</sup>) test is a very important test in regression, whether or not the regression model used can be seen from the determination test. The R<sup>2</sup> value explains how much the exogenous (independent) variables in the model are able to explain the endogenous (dependent) variables.

**Table 4 R-Square Test Results**

Variable	R-Square
Business Sustainability (Z)	0.504
MSMEs Performance (Y)	0.570

Based on the results of the determination test, it shows that the R-Square value of the business sustainability variable is 0.504, which means that the financial literacy and digital innovation variables are able to explain their influence on the business sustainability variable by 50.4% and the remaining 49.6% is explained by other variables outside the model studied. The R-Square value of the MSME performance variable is 0.570, meaning that the financial literacy, digital innovation, and business sustainability variables are able to explain their influence on the MSME performance variable by 57%, while the remaining 43% is explained by other variables outside the model studied.

#### *Hypotesis Testing*

Hypothesis testing is used to analyze whether the hypothesis in this study can be accepted or rejected by looking at the results obtained from the P-Value value. If in hypothesis testing a PValue  $\leq 0.05$  is obtained, the hypothesis can be accepted and it can be concluded that it is significant. However, if the PValue  $\geq 0.05$ , the hypothesis is rejected and non-significant. Furthermore, the path coefficient test can be used to analyze the relationship pattern between variables. A positive path coefficient test value indicates the tendency of the variable relationship in the same direction, on the other hand, if the value is negative, the tendency of the variable relationship is reversed.

**Table 5 Path Coefficients, T-Statistics, and P-Values**

Variable	Original Sample	T Statistics ( O/STDEV )	P-Values	Information
<b>Direct Effect</b>				
Financial Literacy (X1) > MSMEs Performance (Y)	0.319	3.169	0.002	Significant
Digital Innovation (X2) > MSMEs Performance (Y)	0.456	5.513	0.000	Significant
<b>Indirect Effect</b>				
Financial Literacy (X1) > Business Sustainability (Z) > MSMEs Performance (Y)	0.236	2.043	0.043	Significant
Digital Innovation (X2) > Business Sustainability (Z) > MSMEs Performance (Y)	0.269	3.070	0.003	Significant

Based on the table above, it is concluded that the hypothesis states:

**H1:** Financial literacy has a positive influence on the performance of MSMEs in the Bulak Fish Center in East Surabaya can be accepted, with path coefficients of 0.319 with a T-Value of 3.169 or a P-Value of 0.002 smaller than 0.05, so there is an influence or significant (positive).

**H2:** Digital innovation has a positive influence on the performance of MSMEs in the Bulak Fish Center in East Surabaya, it can be accepted, with path coefficients of 0.456 with a T-Value of 5.513 or a P-Value of 0.000 smaller than 0.05, so there is an influence or significant (positive).

**H3:** Financial literacy has a positive influence on MSME performance through business sustainability of Bulak Fish Center MSMEs in East Surabaya can be accepted, with path coefficients of 0.236 with a T-Value of 2.043 or a P-Value of 0.043 smaller than 0.05, then the results are significant (positive) or there is a mediating (intervening) effect.

**H4:** Digital innovation has a positive influence on performance through business sustainability of the Bulak Fish Center MSMEs in East Surabaya can be accepted, with path coefficients of 0.269 with a T-Value of 3.070 or a P-Value of 0.003 smaller than 0.05, the results are significant (positive) or there is a mediating influence (intervening).

## DISCUSSION

### *The Influence of Financial Literacy on MSMEs Performance*

Based on the results of the research that has been conducted, the result that financial literacy has a positive effect on the performance of MSMEs can be accepted. The results of this study indicate that through a high level of financial literacy, business actors can find out how to optimize business operational financing so that the profit value obtained can be maximized. So with the increasing understanding of MSME actors of good financial literacy, of course, they will be able to improve their abilities and knowledge in the financial sector and in making decisions to develop businesses can be analyzed and developed with their financial knowledge so that the results obtained can be maximized by increasing MSME performance.

This result is in accordance with research conducted by Kasendah & Wijayangka, (2019) and Kulathunga et al (2020) which concluded that financial literacy has a positive and significant effect on MSME performance. In this case, it can also be concluded that MSME actors show financial understanding through the understanding of MSME actors on capital planning and allocating income to maximize the purchase of production materials so that in the future the profits currently obtained can be developed again for capital that will be issued next.

### *The Influence of Digital Innovation on MSMEs Performance*

Based on the results of the research that has been carried out, the result that digital innovation has a positive effect on the performance of MSMEs can be accepted. The results of this study indicate that to improve or produce good MSME performance, namely by providing a new innovation in this case digital innovation, one of these innovations is to innovate in terms of finance or payment by consumers. Because currently the development of digital innovation is one of the media that is often adopted by business actors today, which is increasing rapidly due to the new ability of consumers to follow trends and

digitalization, several business entities, including business actors, are innovating and developing businesses in the field of payments.

Some MSME business actors have also utilized marketplaces such as Shopee, Tokopedia and others to sell their products throughout Indonesia, besides being easy to use the marketplace provides a sense of security for MSME business actors. In terms of payment for their products, it is also available in the marketplace, such as using transfers via Shopee Pay, Gopay or direct payment transfers, for example with a Virtual Account so that product buying and selling transactions can be carried out easily, quickly and still prioritize the security aspect of these activities.

These results are in accordance with research conducted by Effiom & Edet (2020), (Lestari et al. (2017), which conducted research on digital innovation in the MSME sector, stated that digital innovation or payment gateways have a positive and significant effect on MSME performance. Then research conducted by Lee et al. (2020), which conducted research on digital innovation in the banking sector, stated that digital innovation provides better asset, loan, and profit growth in the banking world.

#### *The Influence of Financial Literacy on MSMEs Performance Through Business Sustainability*

Based on the results of the research that has been carried out, the result that financial literacy affects the performance of MSMEs through business sustainability can be accepted. This shows that the level of financial literacy possessed by MSME business actors provides an opportunity to analyze financial management in more detail, purposefully and optimally. By having high financial literacy, MSME actors are able to analyze and streamline business operational costs to generate higher profits so that the sustainability of MSME businesses can be better maintained. Understanding financial literacy also encourages MSME actors to make managerial decisions in an appropriate and directed manner, both decisions made for current conditions and subsequent managerial decisions so that business continuity remains stable and tends to increase. Thus it can be concluded that the better the knowledge and financial capabilities possessed by the business actors of the East Surabaya Bulak Fish Center MSMEs, the sustainability of their businesses and business performance will increase.

These results are in line with the results of research conducted by Eniola & Entebang (2015) and Rumini & Martadiani (2020) which concluded that financial literacy has a positive and significant effect on business sustainability. So it can be concluded that financial knowledge is the main capital for individuals to overcome any risks that may occur in the future. This can also be one of the references in the process of managing and making financial decisions.



*The Influence of Digital Innovation on MSMEs Performance Through Business Sustainability*

Based on the results of the research that has been carried out, the result that digital innovation affects the performance of MSMEs through business sustainability can be accepted. These results indicate that MSME business actors can utilize technology for business activities so that business performance is better, the use of technology in business activities can also maintain business sustainability in the long term. The better the business management indicates the better the performance of MSMEs, this will make the business have long-term business sustainability.

In innovation in the digital era to attract consumer interest, MSME businesses can innovate digitally by utilizing social media platforms and marketplaces. Currently, consumers from various circles often search for and buy a product through these two platforms because they are more efficient, practical and save time. MSME businesses can utilize social media platforms such as Facebook, and Instagram and marketplace platforms such as Shoope, Tokopedia, Gojek and Grab. The existence of social media platforms and marketplaces provides opportunities for MSME business actors in developing their businesses to pay attention to market segmentation where services to consumers are well maintained and the quality of products sold attracts consumer interest from the selection of packaging to the suitability of the price of the products sold. So that the use of digital technology in business activities maintains long-term business sustainability. So it can be concluded that digital innovation and MSME performance are more appropriately used as independent variables to directly influence the business sustainability variable.

The results of this study are in line with the results of research from Mila (2018) which states that MSME performance affects the sustainability of MSMEs and MSME performance mediates the effect of digital innovation on MSME sustainability. So it can be concluded that digital innovation and MSME performance are more appropriately used as independent variables through business sustainability.

## **CONCLUSIONS AND RECOMMENDATIONS**

### **Conclusions**

Based on the test results using PLS analysis, to test the influence of financial literacy variables, digital innovation on MSMEs performance through business sustainability, the following conclusions can be drawn:

1. Financial literacy increases contribution to MSME performance. The ever-increasing understanding of financial literacy means that MSMEs business

managers and owners have insight into the benefits of implementing financial literacy so that productivity in managing the performance of MSMEs business management increases.

2. Digital innovation increases contribution to MSMEs performance. Digitalization really helps MSMEs business managers and owners improve MSMEs performance in the payment sector through e-payment gateways such as real time transfers, Qris-Barcode scanning and so on. Apart from that, in the product marketing sector through e-commerce such as Shopee, Tokopedia and so on.
3. Financial literacy increases contribution to MSMEs performance through business sustainability. Good understanding and application of financial literacy makes the sustainability of MSMEs businesses run optimally in line with increasing productivity due to good MSMEs business management performance.
4. Digital innovation increases contribution to MSMEs performance through business sustainability. The application of digitalization in the payment sector and marketing sector through digital platforms makes the sustainability of MSMEs businesses run optimally, which is in line with increasing productivity in managing good MSMEs business management performance.

### Recommendations

As an implication of the results of this research, several suggestions that can be taken into consideration in decision making, including:

1. Improving financial management and understanding financial literacy is a big challenge for MSMEs business managers and owners. Because, with increasing financial literacy, it is hoped that MSMEs business managers and owners will be able to manage business activities and manage finances appropriately to improve performance and maintain business sustainability.
2. Through the dissemination of digital-based information both in terms of payments and marketing, it is hoped that sales will be able to increase and business productivity will continue to grow. This must also be supported by optimal implementation of digitalization for managers and owners of MSMEs businesses and consumers so that digitalization develops well and optimally. Apart from that, MSMEs business managers and owners must also have knowledge regarding market segmentation of the products being sold and products being sold (product knowledge) in the form of product branding awareness, product price lists, product classification and product descriptions. This aims to make it easier for consumers to

search for products on e-commerce and attract consumers' interest in buying the products being marketed.

3. The progress of the Bulak Fish Center MSMEs in East Surabaya is greatly influenced by the role of the Surabaya City Government in providing training in the field of financial literacy and implementing digital innovation by utilizing various existing digital platforms (e-payment and e-commerce) for both payments and marketing. products so that sales of MSMEs products can continue to increase.
4. Business development is a goal that all business owners want to achieve, including the Bulak Fish Center MSMEs business owner in East Surabaya. By increasing financial literacy and implementing digital innovation supported by optimal performance management, it is hoped that MSMEs business owners can be independent and able to develop other business lines.

#### **FURTHER STUDY**

This research is limited to the time and language delivered during interviews with owners or managers of SMEs in the East Surabaya Bulak Fish Center, so it must adapt to their conditions in the field because almost all of them were delivered (interviews) with language that was easily understood by the respondents. The number of respondents who have an educational background that is still below average, so researchers use simple language that is easy to understand.

In future research, researchers can add other variables that can affect the performance of MSMEs including risk management, market competition and so on.

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