

Financial and Marketing Literation to Support SMEs' Performance

Beby Kendida Hasibuan¹, Arlina Nurbaity Lubis¹, Prihatin Lumbanraja¹

¹Department of Management, Faculty of Economics and Business, Universitas of Sumatera Utara, Medan, Indonesia

Corresponding Author: Beby Kendida Hasibuan

ABSTRACT

SMEs have the ability to make a meaningful reduction in the high level of unemployment and contribute to the GDP of the local economy in Indonesia. However they had to face many problems which almost always halted them to grow. Many of which choose option to exit the business. One of the majority problems that SMEs face were financial and marketing problem. This study aimed to evaluate the effect of financial literacy as well as the literacy level, and their marketing performance in relation to their financial performance. A number of 300 SMEs in Medan were participated in this study. Data were collected through structured interview questionnaires to help to collect their perception and answers. The data were evaluated by using multiple linear regression. The result showed a positive and significant effect of financial literacy and marketing performance to SMEs financial performance as whole. This study also indicates that many of SMEs in Medan have a good financial literacy.

Keywords: Financial Literacy, SMEs Performance, Financial Performance, Marketing

INTRODUCTION

A small and medium enterprises (SMEs) sector can contribute highly to the country's economy, contributing to the gross domestic product (GDP) by reducing the level of unemployment, reduction in poverty levels and promotion of entrepreneurship activity. The role of SMEs in the development of the country is significant (Bayati & Taghavi, 2007). SMEs in Indonesia and across the globe still encounter many challenges, despite their

importance and significance of SMEs and their contribution to economic growth which hinder business growth. It is obvious that hurdles in the business success are far more than it was previously. The environments, as well as some factors, are very complex and dynamic.

In accordance with the data from Indonesian Statistics Bureau, SMEs have the ability to make a meaningful reduction in the high level of unemployment and contribute to the GDP of the local economy in Indonesia. Besides assisting in curbing the high level of unemployment, SMEs can be used as a means of transforming the country, by redistributing the productive assets, amongst the previously disadvantaged. The failure rate of SMEs is high throughout the world with the situation being no different to Indonesia (Fang, Yuli & Hongzhi, 2009).

Indonesia is a developing country that is promoting the growth of Micro, Small and Medium Enterprises (SMEs). At present, the UMKM sector is 60.34 percent of Indonesia's GDP. As we know, SME is one of the important sectors that can encourage a country's economy and reduce poverty. The existence of SMEs is believed to be able to contribute to poverty alleviation efforts through job creation (Adomoko, Danso, and Damoah, 2016).

In general, performance can be used as a benchmark for the health of an SME activity and is the key to success of an SME. To be able to realize the strategic improvement of its performance, SMEs are

asked to be able to prepare target markets, adapt to the environment, have certain managerial factors, create product innovation, have creativity and productivity, be sensitive to changes in technology and networks. In addition, performance can include a variety of meanings including company growth, survival, success and competitiveness. Performance can also be described as a company's ability to create acceptable results and actions (Eniola & Etenbang, 2015a)

In fact, it is often found that SMEs have difficulty in developing their businesses due to low HR problems, business ownership, access to finance, marketing problems, and business management issues. The main problems faced by SMEs in improving their business performance are problems in managing human resources and problems in terms of product marketing (Puwaningsih and kesuma, 2015).

Financial literacy, in the brightness of the new business reality, is the capability to adequately oversee financial resources over the life cycle and connect with effectively with financial products and services. Financial literacy is about discernment and makes effective decisions on utilization of financial management (Gavigan, 2010). This is an area that requires knowledge, skill, attitude and experience with goals to deal with the survival of the firm; profit maximization; sales maximization; capturing a particular market share; minimizing staff turnovers and internal conflicts; and maximizing wealth (Jacobs, 2001). It can be among the essential strategic tools to more organize allotments of financial resources and to a considerable financial strength.

The performance and growth of Small and Medium Sized Enterprises (SMEs) have throughout the nations, been of great concern to, among others, development economists, entrepreneurs, governments, venture capital firms, financial institutions and non-governmental organizations (Eniola & Entebang, 2014).

Performance management involves the establishment of a shared understanding about what is to be attained, however, is it going to be attained; and an approach to managing personnel that increases the likelihood of accomplishing success within a consented framework of planned targets, standards and individual and group ability necessities.

One of the problems most often faced by SMEs is the problem of the difficulty of getting access to funding to develop a business. This is as a result of the lack of financial literacy that is owned by SMEs so they are difficult to get access to bank financing and it is difficult to manage their personal finances. A national survey conducted by OJK in 2016 showed that the level of SME financial literacy was very low. Where micro entrepreneurs have the lowest literacy rate of 23.8%.

UMKM is one of the important sectors in running the economy of a country. To be able to support the development of SMEs, it is very necessary to support all parties to get SME performance. This study aims to evaluate the relationship between aspects of financial and marketing behavior that are rarely applied by business actors. In an effort to achieve these objectives a model of SME performance improvement is needed in order to find out what components are needed to be able to improve the performance of SMEs.

LITERATURE REVIEW

Measuring SMEs Performance

At present the company must be able to provide added value to the products produced. However, this is difficult for SMEs to do, due to lack of ability and limited working capital management. This has an impact on SME performance that is not optimal. Ali in Aribawa (2016) suggested SME performance was analyzed using an approach based on the following three assumptions, namely:

- 1) Measuring SME performance is often difficult to do quantitatively, due to

limited resources (financial and labor understanding).

- 2) Performance measurement generally looks at complex financial indicators, so this does not fully show the actual conditions that occur in the business.
- 3) Performance measurements that are often used are relatively only appropriate when used for large

companies that are structured in company management.

Simply put, Liang, You and Liu (2010) and Santos and Brito (2012) identify performance into two types namely financial performance and strategy performance which can be described as follows:

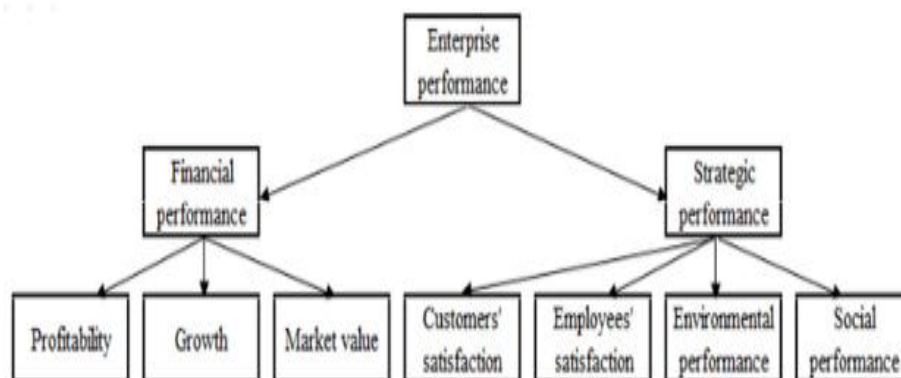


Figure 1. Measuring SMEs Performance

Marketing Behaviour

Marketing behaviour related to how the owner of SMEs applied the concept of marketing mix in firm operational at daily basis. The marketing mix consist of 4P; Price, Product, Promotion, and Place. The first mix were product. This aspect is related to the development of products to be marketed. The product is a very important aspect in the marketing mix that can influence the steps in the other marketing mix. Product development needs to be done to maintain market demand for the products offered. Innovation in this case plays an important role in influencing the market.

The second one related to price. Price in the narrow sense is the amount of money paid for goods or services, in the broader sense the price is the sum of all values that consumers exchange in order to benefit from owning or using goods or services (Kotler and Keller, 2012). In the research of Peres-Cabanero et al. (2011) concluded that price fixing can have a positive impact on sales and profits in micro, small and medium businesses, this is because small, micro and medium

entrepreneurs can see opportunities to gain profits and prices that can set effective prices that can be accepted by the market

The third one related to promotion. According to Kotler and Keller (2012) promotion is an effort by marketers to influence other parties to participate in the exchange of goods or services. Promotion is also an attempt to communicate useful information about a business or product and service to influence potential buyers. Promotion not only discusses the product, the price of the product and the distribution of the product but also communicates the product to the consumer so that the product is famous and the edges are bought

The last one related to places or distribution channel. Kotler and Keller (2012) state that distribution channels or market channels aim to move goods from producers to consumers. So it can be said that the distribution channel helps facilitate the transfer of property rights of goods or services so that consumers can buy. Distribution channels overcome the time, place and ownership gap that separates goods and services from those who need

them. To distribute goods through several alternative channels that can be selected by the producer, depending on which channel contributes to the effectiveness and cost efficiency

Financial Literacy

Financial literacy is one of the main driving factors of business success that requires major attention. As is known, the business environment changes very quickly, so financial literacy is needed to oversee business financial resources during the business life cycle and connect effectively to financial products and services (Eniola and Etenbang, 2015). Financial literacy for SME owners can be defined as someone who knows about financial financing and financial management for businesses for business development, knows how to obtain the right products and services for their business, and interacts with potential buyers of the products and services they offer (Mabula 2016).

Hilgert et al (2003) in Ida and Dwinta (2010) found that consumers who have financial knowledge are more likely to behave in financially responsible ways (financial management behavior). Personal financial knowledge is an element of personal financial health within a conceptual framework consisting of financial satisfaction, financial behavior, and financial attitude and objective measurement (Joo 2008).

Many researchers have defined financial literacy in many studies in the area of personal finance; many fail to define the concept financial literacy properly because it does not capture the manager and the business people. Gitman (2003) outlined financing provision and indicates that financial service is the section that will include the delivery of financial products to individuals. Financing literacy is listed as one of the critical managerial competencies in SMEs firm and development (Spinelli, Timmons, & Adams, 2011). Most scholars agree that entrepreneurs, regardless of their age, are consistently engaged in decision-

making activities concerning resource procurement, allocation and utilization. Such activities almost always have financial consequences and thus, in order to be effective, entrepreneurs must be financially literate (Oseifuah, 2010). There is the only reference made to the importance of managing money and the author only describes the management process of individual households, but there is no clear description of SME owners/manager financial literacy.

Positive relationships between financial literacy and performance have been noted by a number of researchers (Hilgert et al., 2003; Huston, 2010; Kidwell & Turrisi, 2004; Lusardi, Mitchell, & Curto, 2010; Piprek & Coetzee, 2004). Financial resources are essential resources for obtaining both tangible and intangible resources and arranging other resources (Alsos, Isaksen, & Ljunggren, 2006; Brinckmann, Salomo, & Gemuenden, 2011). The concept of financial literacy as comprising three dimensions in knowledge (Lusardi & Bassa Scheresberg, 2013); attitude (Sabri & MacDonald, 2010); and awareness (Rahmandoust, shah, Norouzi, Hakimpoor, & Khani, 2011). Knowledge is about understanding how business performance and business condition are measured using the mental model to facilitate, support, or enrich decision-making (Lusardi & Michell, 2007; Moore, 2003).

MATERIALS & METHODS

The unit of analysis in this study is the SMEs in Medan. This is done to find out how the performance of the SME actors. It is planned that the research will involve 300 SME actors. Because there is no real record of the number of SMEs in the city of Medan, this study uses the assumption that 50% of the community are business operators. With an error rate of 5% and a degree of confidence of 95%, the minimum number of samples based on the Lemesow formula for an unknown population is at least 100 business operators. To avoid errors

in data collection and better estimation, a number of 300 SMEs owners were participated in this study. The participants were taken with non-probability sampling. Their consent was taken to participate in this study.

Self-administered questionnaires were employed during our research. The questionnaire in this study was prepared based on a theoretical study and adjusted to the SME's condition that was the object of research. Therefore, the research questionnaire requires a validity and reliability test before it is applied as an instrument for research data collection. The validity and reliability testing of this instrument was carried out on 30 SMEs owners outside the research sample later. Evaluation of the validity of the questionnaire is done by face validity by adjusting the list of questions raised with existing theories, as well as the Pearson correlation which shows the correlation value of the total score on each variable. The instrument reliability test was conducted by evaluating the Cronbach's alpha value on each variable proposed in this study. We employed multiple linear regression to evaluate the impact of financial literacy and marketing behaviour on its dependent variable, SMEs Performance.

RESULT

The Degree of Indonesian Financial Literation

As we collect the data related to financial literation, we used 7 true or false statements to our participants. Each correct answer will be counted as one value in financial literation. The distribution of each participant's answers was summarized in Table 1.

Table 1 showed that our participants for most parts were gained enough financial literacy. A number of 9,67% of our participants were able to answer the statements given correctly. 92% of them were able to score at least half of given questions. Thus, this result indicates a good

financial literacy were reached SMEs in Medan.

Table 1. Financial Literacy

Correct Answers	Participants	Percentage
0	0	-
1	0	-
2	0	-
3	24	8,00
4	35	11,67
5	114	38,00
6	98	32,67
7	29	9,67

Majority of business operators are married (55.67%). Changing the phase of a person's life from being single to being married can be one of the motivating motivations for one's entrepreneurship. Previously it was informed that in terms of age range, the majority of business operators were already at the age of marriage so that many of the business actors were married. Even so, as many as 40.67% are still not married. Other statuses in this characteristic include divorce and death from business actors.

Majority of business owners have the last education level achieved is high school, followed by the level of Bachelor education (S1). This shows that one of the factors that drives business actors is the problem of education where the last education they have is generally difficult to find work that can meet family needs. At present it is very rare for companies to accept employees with a high school education or below. Nevertheless, participation of bachelor graduates (S1) in the business environment itself has improved.

Majority of business owners run businesses based on the status of private ownership. Even so, there are still many business actors who choose to run their business as a joint venture where there are various limitations when choosing to run their own business, especially with regard to capital.

Regression Model Evaluation

This research model uses two independent variables and one dependent variable. The independent variables used in

this study are financial literacy and marketing behavior of SMEs in Medan City. The dependent variable of this study is the business performance of the SMEs. A total of 300 businesses participated in this study.

The normality test aims to find out whether the intruder or residual variable regression model has a normal distribution. Good data is data that has a pattern like the shape of a bell on the histogram diagram. The data normality test used in this study is

the Kolmogorov-Smirnov test. Criteria for testing one sample using a one-sided test that is by comparing the probability with a certain level of significance that is if a significant value or probability <0.05 , then the distribution of data is not normal and if a significant value or probability > 0.05 , then the data is normally distributed. Evaluation using graphs is used to support statistical evaluation results.

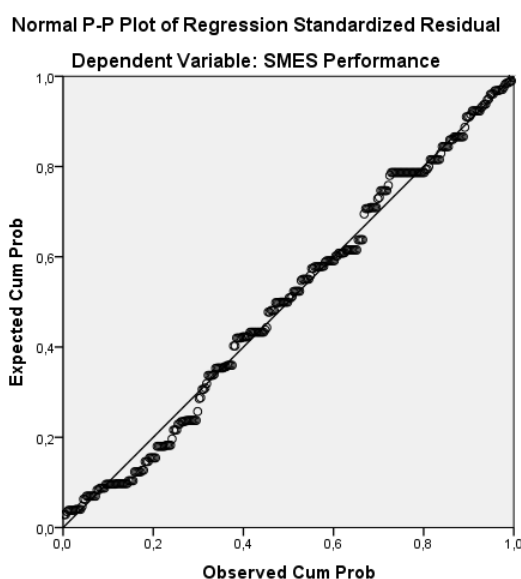


Figure 2. PP Plot Evaluation

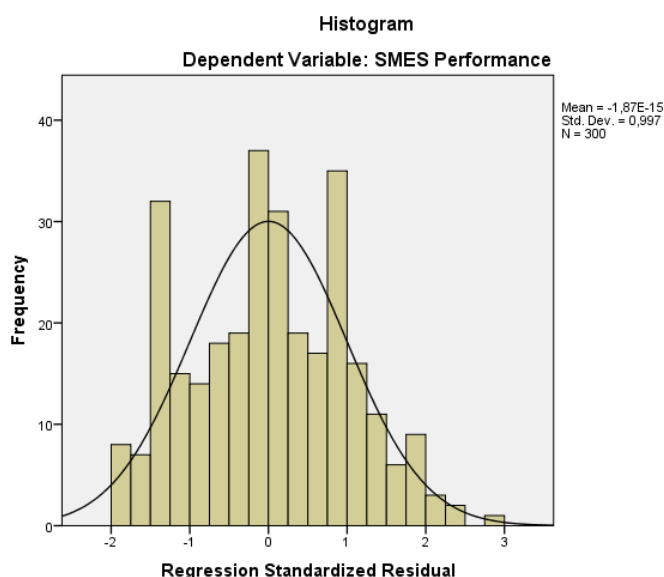


Figure 3. Residual Histogram

Figure 2 shows that data residuals are spread evenly along diagonal lines. Nevertheless there are some points that

move away from the diagonal lines that lead to abnormal distribution. The data histogram in Figure 3 shows the blanks on the left side

of the residual data distribution that indicate the data are not normally distributed. Statistical evaluations were carried out to confirm this.

Kolmogorov Smirnov Test was used to evaluate the normality based on statistics. The test results were summarized in Table 2 as follow:

Table 2. Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		300
Normal Parameters ^{a,b}	Mean	0E-7
	Std. Deviation	,55222302
Most Extreme Differences	Absolute	,061
	Positive	,060
	Negative	-,061
Kolmogorov-Smirnov Z		1,052
Asymp. Sig. (2-tailed)		,218
a. Test distribution is Normal.		
b. Calculated from data.		

Table 2 provides information that statistically, the Kolmogorov-Smirnov test, gives a significance value > 0.05 which indicates that the residual data is normally distributed. Thus, the assumption of normality in residual data has been fulfilled.

Symptoms of multicollinearity can be seen from the value of tolerance and VIF

(Variance Inflation Factor). Both measures indicate the variables which are strongly affecting other dependent variables. Tolerance is to measure the variable variables of the dependent variables which are not explained in terms of the other variables. The value that is used for Tolerance > 0.1 and VIF < 5, then there is no multicollinearity.

Table 3. Collinearity Analysis

Coefficients ^a			
Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Financial Literation	,999	1,001
	Marketing Behaviour	,999	1,001
a. Dependent Variable: SMES Performance			

Table 3 showed evidence that there is no problem of multicollinearity of data on the independent variables of the study. Each element of marketing communication technology is independent so that the variables proposed in this model do not affect each other.

Heteroskedasticity test data in this study were evaluated using Glejser-test statistical method. The result is summarized as follow:

Table 4. Glejser Test Analysis

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error				Beta	Tolerance
1	(Constant)	,254	,197		1,290	,198		
	Financial Literation	,017	,018	,056	,968	,334	,999	1,001
	Marketing Behaviour	,028	,044	,037	,636	,525	,999	1,001
a. Dependent Variable: ABSRES								

Table 4 indicates that there are no statistically significant independent variables on the value of the residual data absolute. Thus statistically there is no problem of heteroscedasticity of data

Multiple Linear Regression Analysis

The research model has been evaluated qualitatively based on classical

assumptions. The model has fulfilled the classical assumption criteria so that the prediction results from this research model are best linear unbiased estimators and can be used to evaluate the conditions that occur in the research sample. The results of the regression conducted in this study are summarized as follows:

Table 5. Regression Result

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error				Beta	Tolerance
1	(Constant)	1,657	,343		4,827	,000		
	Financial Literation	,139	,031	,230	4,538	,000	,999	1,001
	Marketing Behaviour	,650	,078	,424	8,374	,000	,999	1,001
a. Dependent Variable: SMES Performance								

Table 5 provides information that financial literacy and marketing behavior explain 23.4% of the conditions of SME performance. Thus, there are 76.6.9% influences from outside the model currently proposed. The significance level of the F-test on the proposed model <0.05 (Table 5) which indicates that together, financial literacy and marketing behaviors play a role in influencing the performance of SMEs in Medan City.

DISCUSSION

Financial behavior has very little influence on the performance of SMEs ($B = 0.139$) with a significance level of < 0.05 . Thus, there is enough evidence to state that financial literacy positively and significantly influences the performance of SMEs. Financial literacy includes basic knowledge of financial management from the business owners. Our result showed that many of which our business owners were have a good degree of financial literacy. It will also help them to improve their performance furthermore. Marketing behavior in this study had a positive influence ($B = 0.650$) and significant ($\text{sig} < 0.05$) on the performance of SMEs. In the proposed model this influence is the dominant influence on the achievement of SME performance. Thus, there is enough evidence to state that marketing behavior has a positive and significant effect on the achievement of SME performance in Medan. Every one unit increase that occurs from marketing behavior, SME performance will increase by 0.650 units. This marketing behavior includes activities in product development, evaluation and pricing, evaluation and determination of distribution channels, as well as promotional activities to increase demand for products. Thus, the better this marketing behavior is applied by business actors, the better performance it will achieve.

CONCLUSION

This study has at least two contributions to the literature of SMEs

management. First of all our findings showed the evidence that financial literacy and marketing behaviour have a positive effect toward SMEs performance. It is suggested that the business owners to improve their financial literacy and marketing activities to improve their financial performance. Secondly we evaluate that many of which of business owners have a good grade for their financial literacy. Therefore it could be implied that the SMEs in Medan readily to implement more financial policy to support their enterprises or businesses.

ACKNOWLEDGEMENT

The authors gratefully acknowledge that the present research is supported by Universitas Sumatera Utara. The support is under the research grant TALENTA - Penelitian Dasar for year 2019

REFERENCES

1. Adomoko, S., Danso, A., dan Damoah, J.O. 2016. The moderating influence of financial literacy on the relationship between access to finance and firm growth in Ghana. *Venture Capital*. 18(1).43-61.
2. Alsos, G., Isaksen, E., & Ljunggren, E. (2006). New venture financing and subsequent business growth in men and women-led businesses. *Entrepreneurship Theory and Practice*, 30, 667-686. <http://dx.doi.org/10.1111/j.1540-6520.2006.00141.x>
3. Ardiana, I.D.K.R., Brahmayanti., I.A., Subaedi., (2010). Kompetensi SDM UKM dan Pengaruhnya Terhadap Kinerja UKM di Surabaya. *Jurnal Manajemen Dan Kewirausahaan*, Vol.12, No. 1, Maret 2010: 42-55
4. Aribawa, Dwitya (2016). Pengaruh Literasi Keuangan Terhadap Kinerja dan Keberlangsungan UMKM di Jawa Tengah. *Jurnal Siasat Bisnis* Vo. 20. No 1, Januari 2016, Hal 1-13.
5. Eniola, A. A., & Entebang, H. (2014). SME firms performance in Nigeria: Competitive advantage and its impact. *International Journal of Research Studies in Management*, 3(2), 75-86. <http://dx.doi.org/10.5861/ijrsm.2014.854>

6. Eniola, A. A., & Entebang, H. (2015a). Government policy and performance of small and medium business management. *International Journal of Academic Research in Business and Social Sciences*, 5(2), 237-248. <http://dx.doi.org/10.6007/IJARBS/v5-i2/1481>
7. Eniola, A. A., & Entebang, H. (2015b). SME firm performance-financial innovation and challenges. *Procedia - Social and Behavioral Sciences*, 195, 334-342. <http://dx.doi.org/10.1016/j.sbspro.2015.06.361>
8. Eniola, A. A., Entebang, H., & Sakariyau, O. B. (2015). Small and medium scale business performance in Nigeria: Challenges faced from an intellectual capital perspective. *International Journal of Research Studies in Management*, 4(1), 57-71. <http://dx.doi.org/10.5861/ijrsm.2015.964>
9. Gavigan, K. (2010). Show me the money resources: Financial literacy for 21st century learners 28(25)pp:24-27: Library Media Connection.
10. Hasibuan, B, K., Lubis, Y.M., dan Ritonga, W.A, HR. 2017 Financial Literacy and Financial Behavior as a Measure of Financial Satisfaction. Atlantis Press. <https://www.atlantispress.com/proceedings/ebic-17/25891530>
11. Huston, S. J. (2010). Measuring financial literacy. *Journal of Consumer Affairs*, 44(2), 296–316. <http://dx.doi.org/10.1111/j.1745-6606.2010.01170.x>
12. Ida dan Cinthia Yohana Dwinta. (2010). Pengaruh Locus of Control, Financial Knowledge, Income terhadap Financial Management Behavior. Universitas Kristen Maranatha: *Jurnal Bisnis dan Akuntansi* Vol. 12, No. 3.
13. Kotler, Philip dan Kevin Lane Keller. 2012. *Marketing Management*, 14th Edition. New Jersey: Prentice Hall.
14. Liang, T. P., You, J. J., & Liu, C.C. (2010). A resource-based perspective on information technology and firm performance: a meta analysis. *Industrial Management & Data Systems*, 110(8), 1138–1158. <http://dx.doi.org/10.1108/02635571011077807>
15. Mabula, Juma Buhimila. (2016). Reviewing Financial Literacy for SMEs and Entrepreneurs in Developing Economies, *International Journal of Science and Research (IJSR)*. Volume 5 Issue 6, June 2016 .ISSN (Online): 2319-7064. Pp.882-886. <http://dx.doi.org/10.21275/v5i6.NOV164309>
16. Peres-carbanero, Carmen, Tomas Gonzales-cruz dan Sonia Cruz-Ros. 2011. Do Family SME Managers Value Marketing Capabilities' Contribution to Firm's Performance, *Journal of Marketing and Intelligence Planning* 30:116-142
17. Purwaningsih, Ratna., dan Kusuma, Panjar Damar (2015). Analisis Faktor-Faktor Yang Mempengaruhikinerja Usaha Kecil Dan Menengah (UKM) Dengan Metode Structural Equation Modeling(Studi Kasus UKM Berbasis Industri Kreatif Kota Semarang). Prosiding SNSTke – 6 Fakultas Teknik Universitas Wahid Hasyim Semarang. Pp 7-12 <https://media.neliti.com/media/publications/176529-ID-analisis-faktor-faktor-yang-mempengaruhi.pdf>
18. Santos, J. B. & Brito, L. A. L. (2012). Toward a subjective measurement model for firm performance. *Brazilian Administration Review (BAR)*, 9(6), 95–117. <http://dx.doi.org/10.1590/S1807-76922012000500007>
19. Soetiono, Kusumaningtuti S., dan Setiawan, Cecep. 2018 *Literasi dan Inklusi KeuanganIndonesia*. Rajawali Press

How to cite this article: Hasibuan BK, Lubis AN, Lumbanraja P. Financial and marketing literacy to support SMEs' performance. *International Journal of Research and Review*. 2021; 8(3): 451-459.
