

Influence of Financial Literacy on Performance and Business Sustainability: Case Study on Cake Business Group Typical Malayu Deli

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Abstract: This research aims to analyze the influence of financial literacy on performance and sustainability, case studies in the business group of the Malayu pastry vendor of Deli. The structural equation model is used to analyze data. The results confirmed the influence of financial literacy on performance and business continuity in the Malayu pastry business group. The implication is that with proper financial literacy. The cake Business group can make appropriate management and financial decisions, to improve business performance and sustainability.

1 INTRODUCTION

Medan City is a city that has a diversity of culture and the historical side of some tourist attractions. Enjoying the culinary richness of Medan city also must not be absent from the list of activities. Culinary trails in the city of Medan that are not less diverse can make everyone put heart in the town nicknamed the Malay City of Deli. This distinctive culinary is continued to be preserved by the descendants of the Malay Deli in Medan, so there is a unique business group Cake Melayu Deli. The existence of this business group needs to continue to be maintained, because the typical culinary of the area becomes an attraction for tourists who visit.

Small micro-enterprise sector, can absorb the workforce through the creation of new employment. In general, the SME always has a common problem that is not complet, so it is difficult to compete with large companies. The typical Malay pastry business group also includes SMEs who have similar issues with SMEs in general, particularly in the field of financial literacy.

In the year 2016, the results of OJK survey showed that North Sumatera has an index of 31.3% above the average value of the National Financial Literacy Index and ranked 11 out of 33 provinces. This data shows the low financial literacy of the city

community Medan (Segara, 2017) which will impact the sustainability of the business.

Enriching the knowledge of SMEs to financial expertise so that the management of business finances can develop well (Aribawa, 2016), is one way to maintain business sustainability.

Dahmen and Rodriguez (2014), stated that, the necessary understanding of financial literacy rates for business actors, especially for the preparation of business financial statements is indispensable, in terms of the search process of additional funds.

Anggraeni (2015) stated that, financial literacy affects how people think of financial conditions and influence strategic decision making in financial and better management for business owners. However, Eke, and Raath (2013) found that financial literacy does not affect on SMEs growth.

Based on the descriptions, researchers are motivated to research the level of financial literacy, whether it affects performance and sustainability of the business.

2 LITERATURE REVIEW

2.1 Financial Literacy

Financial literacy is a lives skill that everyone needs to be able to improve their life and survive the current complex economy (Lusardi, 2012). Financial literacy is a mixture of financial knowledge and skills, and it will help business owners make decisions and financial choices wisely (Okello, Ntayi, Munene, andMalinga, 2017).

Based on the survey data conducted by OJK (2013), there are four levels of financial literacy of the Indonesian population, namely :

- (1) well literate of 21.84%, namely have knowledge and know the benefits of financial services institutions and have Financial product usage skills;
- (2) sufficient literate of 75.69%, i.e.,have expertise and understand the benefits of financial services institutions;
- (3) lessscholarly of 2.06%, i.e., only having knowledge of financial services institutions; and
- (4) not literate of 0.41%, i.e., has no experience and confidence in financial services institutions.

The measurement of the financial literacy variables in SMEs uses measurement indicators regarding the Developing Indonesian Financial Literacy Index conducted by the Financial Services Authority (2013). This measurement indicator is following the research undertaken by Aribawa (2016) namely, general knowledge banking with four sign questions, and interest calculation of savings and loans with a sign of 4 items.

2.2 Business Performance and Sustainability

Mutegi et al. (2015), defining the performance of SMEs, is the result of work achieved by the individual, and adjusting to the role or task of the individual in a company at a certain period, which is associated with a value size or individualstandard companies work.Aribawa (2016), in his research on the measurement of varibael performance, using five statements of analysis.

Adamoko et al. (2015), business growth is the company's ability to increase the size of a company. Fatoki (2014) in his research, said that business growth and how to measure it is usually defined and measured using absolute or relative, changes in sales, assets, work, productivity, profits.

Business sustainability in SMEscan be seen from the company's success in innovating, employee and customer management, and also initial capital. This

shows that the company has an orientation to thrive and to see the opportunity for continuous innovation (Hudson, Smart, and Bourne, 2001).

In general, the hypotheses tested in this study are as follows:

- H1: financial literacy has a significant impact on performance
 H2: financial literacy has a significant impact on business sustainability

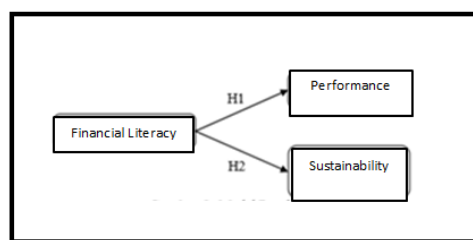


Figure 1. Research Model

3 RESEARCH METHODOLOGY

3.1 Population and Samples

The type of research used in this study is quantitative research. This research aims to determine the influence of independent variables, i.e., financial literacy of dependent variables, performance, and sustainability.

The population of this research is the owner and manager of the Malay pastry business in Medan as many as 145 business people. The number of samples taken in this study was as much as 100 respondents.

The characteristics of this research sample are based on several criteria, namely: SMEs located in Medan, have at least 1 employee, offer deli Malay cake products.

3.2 Data Collection

This study uses primary data. Primary data was obtained from questionnaire, which was distributed directly to all business people, who sold a traditional Malay cake in Medan.

The form of the statement used is a closed statement, and the measurement scale used for the dependent variable in this study uses sematic defferential (a measure of the sematic defferential scale used in the measurement of the dependent variable is measured by giving a score of one to five). In general, the constructs and indicators used are presented as in Table 1.

The sample size used is 100. The sampling technique used is non-probability sampling with accidental sampling, ie the sample is selected based on the ease in obtaining the required data.

Table 1. Research Constructions and Indicators

Research Constructions	Indicators
Financial Literacy	1. Opening an account 2. Minimum funds 3. Funds settle 4. Government guarantee 5. One year yield 6. Multi-year yields 7. Credit interest
Sustainability	1. Total assets 2. Turnover 3. Profit 4. Production volume 5. Sales costs 6. Number of employees 7. Business location
Performance	1. Work plan 2. Work errors 3. Sales growth 4. Decreasing fixed costs 5. Anticipate production

Source: Data processed

3.3 Technical Analysis

Collected Data is analyzed using a partial least square based structural equation model. Smart Software PLS 3.0 is used to help analyze the relationship between variables.

4 RESULT AND DISCUSSION

4.1 Document of Theoretical Model Development

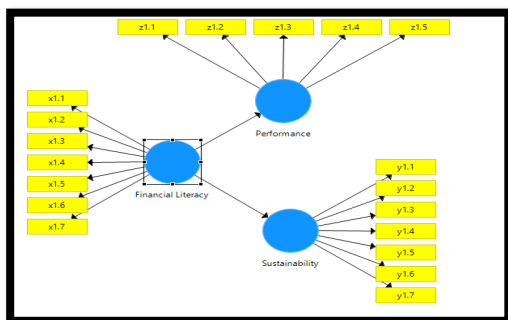


Figure 2. Theoretical Model Development Diagram
Source: PLS Output of research data (2019)

4.2 Outer Model or Measurement Model

4.2.1 Validity and Reliability Tests

Convergent Validity

Convergent validity is seen based on the correlation between item / indicator scores and latent variable scores. Individual reflective measures are said to be high if they correlate more than 0.7 with the latent variable that is to be measured (Cahyanigrum, Endah et al. 2015).

Convergent validity of the measurement model with reflexive indicators can be seen from the correlation of score items with variable scores. The indicator is considered valid if it has a correlation value above 0.70. But in the research stage of developing the loading scale 0.50 to 0.60 is still acceptable (Ghozali, 2008).

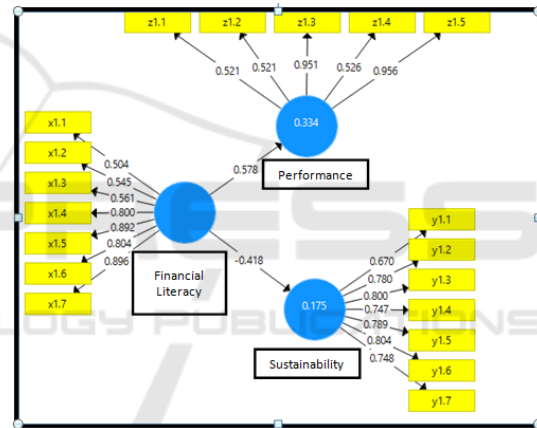


Figure 3. Output Diagram
Source: PLS Output of research data (2019)

Based on figure 3 it can be seen that the outer loading of each item has a correlation value greater than 0.50, so it can be said to be valid. This shows that the indicators of each variable are declared valid or can measure these variables appropriately

Composite reliability

Composite reliability is said to be good if the value is above 0.60. Based on the PLS test results show that the composite reliability value for all variables

Table 2. Value Composite Reliability

	Composite Reliability
Sustainability	0,907
Performance	0,836
Financial literacy	0,885

Source: PLS Output of research data (2019)

Based on Table 2, Value Composite Reliability, obtained information that the amount of Composite Reliability on all blocks of indicators has met the assumption Composite Reliability is more significant than 0.6, it means that the indicator blocks in each latent variable has a high consistency.

Discriminant Validity

Discriminant validity with reflexive indicators, the value can be checked on the cross-loading between sign with its construct. Indicator correlation value to its construction must be more significant than other construct value. Another method of assessing discriminant validity is to use Average Variance Extracted (AVE) which has a construct value > 0.50 specified as a good model (Ghozali, 2008). Visible on the AVE table the terms of construct value > 0.50 already appropriate, so it can be concluded that the model in this study is a good model.

Table 3. Average Variance Extracted (AVE)

	Average Variance Extracted
Sustainability	0,583
Performance	0,528
Financial literacy	0,536

Source: PLS Output of research data (2019)

4.3 Inner Model or Structural Model

After the estimated model meets the outer model criteria, the next test is the structural model (inner model). Internal model or structural model testing is done to see the relationship between construct, significance value, and R-square of the research model. Evaluating structural models is by looking at values R-square, for the t test dependent construct as well as the significance of the structural path parameter coefficients.

R-square

To assess the model with PLS begins by looking at R-square for each latent dependent variable. The following table is the result of R-square estimation.

Table 4. R-Square

	R-Square	Adj.R-Square
Sustainability	0,175	0,166
Performance	0,334	0,328

Source: PLS Output of research data (2019)

Q-Square predictive relevance for the structural model, measure how well the observational value produced by the model, and also the estimated parameter. The Q-square value > 0 indicates the

model has predictive relevance; otherwise if the Q-square value ≤ 0 shows the model lacking predictive connection.

$$\begin{aligned}
 \text{Q-Square predictive relevance} &= 1 - (1 - \text{Rsquare1})(1 - \text{Rsquare2}) \\
 &= 1 - (0,825)(0,666) \\
 &= 1 - 0,54945 = 0,45055
 \end{aligned}$$

4.4 Hypothesis Testing

Hypothesis testing on the t test uses path significance tests. Testing structural models to assess the effect of each direction of the relationship (causal path) and the predetermined hypothesis testing, used bootstrapping techniques. Based on the results of the technical analysis, all the course of the variable relationship is significant at a significant rate (p-value) of 5% and with the amount of t-Statistic, respectively > 1.96. The relationship between variables visible to the inner model indicates all the hypotheses submitted are acceptable.

In testing the draft model of this study proposed test on two hypotheses as follows:

H₁: financial literacy has a significant impact on performance

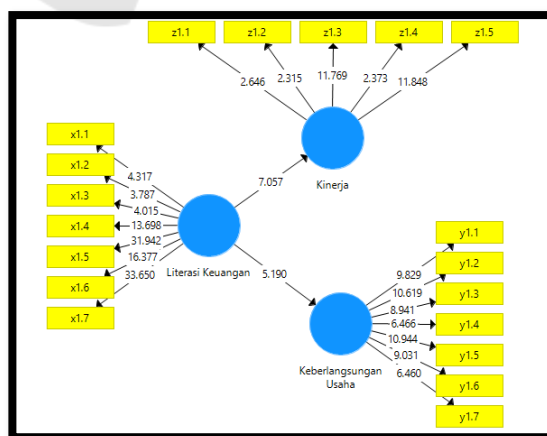
H₂: financial literacy has a significant influence on the sustainability of business

Table 5. Path Coefficients

	t - statistic	P-value	Keterangan
Financial literacy → Sustainability	5,138	0,000	Significant
Financial literacy → Performance	8,497	0,000	Significant

Source: PLS Output of research data (2019)

Table 5 path coefficients, shows the bootstrapping path coefficients which illustrate the significant positive effect between latent variables.



Path Significance Test

Figure 5. Bootstrapping Structural Model
Source: PLS Output of research data (2019)

The coefficient value of the structural model is said to be significant if the $t\text{-count} > t\text{-table}$ is 1.96 (1.96 is the $t\text{-table}$ value in the 95% confidence level). All the indicators in Figure 5 look substantial on the condition of $t\text{-value} > 1.96$.

These results mean that the relationship between the variables seen with the model shows that all proposed hypotheses can be accepted.

5 CONCLUSION AND SUGGESTION

5.1 Conclusion

In general, it can be seen that there is an influence of financial literacy on performance and sustainability of the business in the Malay Deli Merchant business Group in Medan.

Based on the explanation described in the analysis and discussion chapter, it was concluded that the most substantial direct effect occurred on the variables of financial literacy to performance.

The research also provides insight to stakeholders who have a role in increasing the level of financial literacy in Indonesia.

5.2 Suggestion

In the future, researchers hope, there will be a lot of research with a more applicative perspective for the development of creative business in Indonesia. Improvements to this research can be done among others by extending the scope of the sample to a broader extent, modifying the model to be more involved, or could also extend the range of the measuring indicator.

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