ANALYSIS OF THE INFLUENCE OF FINANCIAL LITERACY ON THE FINANCIAL PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES WITH RATIONAL FINANCING MEDIATION DECISIONS AND FINANCIAL CAPITAL IN DELI SERDANG DISTRICT, NORTH SUMATRA PROVINCE

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Abstract

This research aims to analyze the influence of financial literacy on the financial performance of small and medium enterprises with the mediation of rational financing decisions and financial capital in Deli Serdang Regency, North Sumatra Province. The type of research used is quantitative associative research. The data analysis techniques used are descriptive statistical methods and structural equation modeling (SEM) analysis. The sample in this research was 100 Small and Medium Enterprises (UKM) with a sampling technique using purposive sampling. The research results show that financial literacy has a positive and significant effect on rational financing decisions. Financial literacy has a positive and significant effect on financial capital. Financial literacy has a positive and significant effect on financial performance. Rational financing decisions have a positive and significant effect on financial performance. Financial capital has a positive and significant effect on financial performance. Financial literacy influences financial performance mediated by rational financing decisions. Financial literacy influences financial performance mediated by financial capital.

*Keywords: **Financial Literacy, Rational Financing Decision, Financial Capital, Financial Performance***

1.   INTRODUCTION

In terms of driving the economy, Deli Serdang Regency is supported by various sectors and Small and Medium Enterprises which are moving towards independence. Many Small and Medium Enterprises in Deli Serdang Regency have emerged with ongoing assistance from the government and higher education institutions in North Sumatra. In this case, of course, Small and Medium Enterprises need support from financial institutions such as banks. Even though the government through Bank Indonesia has made a policy that requires commercial banks to channel financing to the Small and Medium Enterprises sector, in reality on the ground it turns out that it is not as easy as imagined. The rules and procedures made by banks sometimes make it difficult for Small and Medium Enterprises to obtain financing from banks, especially if the bank requires assets as collateral. So with this, many of them are unable to continue their business, forced to close or go out of business. performance is basically used as a tool to measure the health of Small and Medium Enterprises. The financial performance of Small and Medium Enterprises is used as a subjective measurement medium that describes the effectiveness of using Small and Medium Enterprises' capital in carrying out their main business and increasing income. Entrepreneurs with good financial understanding influence financial decision making, and have a significant impact on business continuity including in negotiations, monitoring, insurance, loans and savings. Financial literacy also provides access and financial services that can affect the financial performance of small businesses, where weak financial capabilities can make it difficult for entrepreneurs to obtain the financial services they need (Brinckmann, 2021).

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Access to financial services is a key factor in starting and developing a small business. Equity financing from internal sources has a high level of financial performance. Siekei (2019) revealed that financial capital has a large positive impact on a company's financial performance. High liquidity can help a company meet its financial obligations on time, and is the result of good capital and debt management. Psychologists also emphasize that overconfidence can influence humans' assessment of risk and their ability to face problems (Irawati, 2020). The optimism or pessimism of SME owners can also influence financial decisions and company performance.

2.LITERATURE REVIEW

2.1. Agency Theory

According to Nkundabanyanga (2021), agency theory emerged because of the relationship between the agency and the principal in the delegation of company decision making to management. Agency theory refers to the agent's obligation to provide accountability to the principal. Ackah (2020) emphasizes the importance of entities providing accountability to information users such as entrepreneurs and creditors. Financial practices between SMEs (agents) and creditors (principals) reflect the concept of agency theory, with creditors requiring quality financial reports to reduce information asymmetry. Quality financial management knowledge support is needed to produce accurate financial reports.

2.2. Small and Medium Enterprises

The definition of Small and Medium Enterprises (SMEs) varies in each country, but has similarities in terms of labor and capital. The definition of SMEs according to Law Number 20 of 2008 is based on the number of employees and capital. Small businesses are productive economic businesses that stand alone, while medium businesses are productive economic businesses that stand alone with the amount of net worth or annual sales proceeds determined by law.

2.3 SME Financial performance

Performance is a picture of the extent to which organizations achieve their goals and vision. Performance measurement is needed to determine the achievement of set targets, and usually reflects the philosophy and culture of the organization. Factors such as individuals, leadership, work groups, systems, and situations influence organizational performance. Motivation and work ability are also important dimensions in measuring performance (Padachi, 2016). Company performance is measured by various indicators, especially in financial terms. However, the concepts of success and business success do not have a universal definition, and depend on the goals and context of the company. Organizational growth is assessed based on aspects such as sales, employees, and assets. Performance measurement can be carried out using various financial and non-financial indicators, but subjective actions taken by entrepreneurs can make it difficult to compare performance between companies.

2.4 Financial Literacy

Quality human resources are an important factor in economic development, where increasing financial literacy is the key to improving community welfare. Investors need to seek the right information before making financial decisions, and financial literacy plays an important role in understanding financial concepts and making responsible decisions. Confidence and financial knowledge are a necessary combination in the financial decision making process. Financial literacy also helps individuals plan for retirement and manage personal finances wisely. Various studies show that financial literacy has a positive impact on individual financial management, as well as helping in selecting appropriate financial and investment products (Fachrudin, 2016). Without adequate financial literacy, individuals are potentially exposed to the risk of fraud and experience difficulties in planning future finances.

2.5 Ratio Financing Decision

Good financial planning is also an important part of corporate strategy, but often receives less attention in SME research. Investment, funding and dividend decisions must be taken optimally to ensure the company's survival. Methods such as Multicriteria Decision Aid (MCDA) can help in making financial decisions by evaluating aspects of company performance, investment, financial problems and credit. Corporate finance research still has room to develop research related to SME financial decisions so that they can make a greater contribution to economic growth and development.

2.6 Financial Capital

Financial capital is important for companies, especially large companies that require a lot of capital both internally and externally to meet obligations and operational costs. Access to finance is essential for the survival and performance of a company, because finance is the heart of every business enterprise. In running their business, SMEs need sufficient access to financial capital, both internal and external. In the small business literature, there are statements about entrepreneurs' lack of access to finance, which limits the opportunities for owners and managers to take action for financial access. The availability of financial capital can also improve a company's resource growth strategy. However, SMEs often experience obstacles in accessing funding sources. Therefore, it is necessary to have a good understanding of the two basic forms of financing for businesses, namely internal financing and external financing, as well as the different scenarios in terms of the amount of funds required, repayment periods and the nature of the specific risks involved.

3. RESEARCH METHOD

This research is quantitative research that emphasizes measurable data through several hypothesis tests, classical assumption tests, analyzing relationships between variables and drawing conclusions. This research was conducted in Small and Medium Enterprises (UKM) Deli Serdang Regency, North Sumatra Province with a total of 171,000 UKM. The time period used in this research starts from July 2023 to May 2024. This research uses a purposive sampling method where the researcher determines the sampling by setting criteria in accordance with the research objectives so that it is hoped that it can answer the research problems.

4. RESULT AND DISCUSSION
4.1 Composite Reliability

Variabel	Composite Reliability	Rule Of Thumb	Kesimpulan
Financial Literacy (X)	0,909	0,700	Reliabel
Rational Financing Decision (Y_1)	0,955	0,700	Reliabel
Financial Capital (Y_2)	0,884	0,700	Reliabel
Kinerja Keuangan UKM (Y_3)	0,890	0,700	Reliabel

The table above shows that the Composite Reliability value is > 0.7, which means that all variables are declared reliable.

4.2 Inner Model Analysis

After evaluating the model and finding that each construct meets the requirements for Convergent Validity, Discriminant Validity and Composite Reliability, the next step is to evaluate the structural model which includes testing model fit, Path Coefficient and R^2. Model fit testing is used to find out whether a model fits the data.

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4.3   Path Coeffisient

It is known that the Financial Literacy (X) variable has an influence on the Rational Financing Decision (Y1) variable of 0.744 or 74.4%. The Financial Literacy variable (X) has an influence on the Financial Capital variable (Y2) of 0.701 or 70.1%. The Financial Literacy variable (X) has an influence on the SME Financial Performance variable (Y3) of 0.335 or 33.5%. The Rational Financing Decision (Y1) variable has an influence on the SME Financial Performance variable (Y3) of 0.432 or 43.2%. The Financial Capital variable (Y2) has an influence on the SME Financial Performance variable (Y3) of 0.245 or 24.5%.

5. DISCUSSION

The results of the analysis show that the influence value of the Financial Literacy (X) variable on Rational Financing Decision (Y1) is 0.744 with a t-statistics value of $17.928 >$ Ttable 1.96 and a p-value of $0.000 < 0.05$, thus H1 is accepted. The influence value of the Financial Literacy (X) variable on Financial Capital (Y2) is 0.701 with a t-statistics value of $11.430 >$ Ttable 1.96 and a p-value of $0.000 < 0.05$, thus H2 is accepted. The influence value of the Financial Literacy variable (X) on SME Financial Performance (Y3) is 0.335 with a t-statistics value of $4.531 >$ Ttable 1.96 and a p-value of $0.000 < 0.05$, thus H3 is accepted. The influence value of the Rational Financing Decision (Y1) variable on SME Financial Performance (Y3) is 0.432 with a t-statistics value of $5.207 >$ Ttable 1.96 and a p-value of $0.000 < 0.05$, thus H4 is accepted.

The influence value of the Financial Capital variable (Y2) on SME Financial Performance (Y3) is 0.245 with a t-statistics value of $2.962 >$ Ttable 1.96 and a p-value of $0.003 < 0.05$, thus H5 is accepted. The influence of Financial Literacy (X) on SME Financial Performance (Y3) through Rational Financing Decision (Y1) as an intervening variable is shown by the t-statistics value of $4.848 >$ Ttable 1.96 and the p-value $0.000 < 0.05$, this means Hypothesis 6 accepted. The influence of Financial Literacy (X) on SME Financial Performance (Y3) through Financial Capital (Y2) as an intervening variable is shown by the t-statistics value of $2.823 >$ Ttable 1.96 and the p-value $0.005 < 0.05$, this means that Hypothesis 7 is accepted .

6. CONCLUSION

Based on the research results above, it can be concluded that:
1. Financial literacy has a positive and significant effect on rational financing decisions in Small and Medium Enterprises (UKM) in Deli Serdang Regency, North Sumatra Province.
2. Financial literacy has a positive and significant effect on financial capital in Small and Medium Enterprises (UKM) in Deli Serdang Regency, North Sumatra Province.
3. Financial literacy has a positive and significant effect on the financial performance of Small and Medium Enterprises (UKM) in Deli Serdang Regency, North Sumatra Province.
4. Rational financing decision berpengaruh positif dan signifikan terhadap kinerja keuangan Usaha Kecil Menengah (UKM) Di Kabupaten Deli Serdang, Provinsi Sumatera Utara.
5. Financial capital has a positive and significant effect on the financial performance of Small and Medium Enterprises (UKM) in Deli Serdang Regency, North Sumatra Province.
6. Financial literacy influences the financial performance of Small and Medium Enterprises (UKM) mediated by rational financing decisions in Small and Medium Enterprises (UKM) in Deli Serdang Regency, North Sumatra Province.
7. Financial literacy influences the financial performance of Small and Medium Enterprises (UKM) mediated by financial capital in Small and Medium Enterprises (UKM) in Deli Serdang Regency, North Sumatra Province.

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