

# Determinants Factors of Financial Literacy and its Impact on Efficiency of Business Management to Strengthen Economy of Watershed Communities in Kuantan Singingi Regency

Edyanus Herman Halim, SE., MS  
Faculty of Economics and Business  
University of Riau  
Pekanbaru, Indonesia

Ishadi, SE., MM  
Faculty of Economics and Business  
University of Riau  
Pekanbaru, Indonesia

Arika Fitriani, SE., M.Si  
Faculty of Economics and Business  
University of Riau  
Pekanbaru, Indonesia

**Abstract:-** This study was conducted to investigate the development of small and medium enterprises in Kuantan Singingi Regency. Small and medium enterprises need to be paid attention to because these industries have very important thoughts in generating employment and household income. The role of government was providing a lot of assistance in the development of small and medium enterprises in the Kuantan Singingi Regency.

This study found several problems faced by Small and Medium Enterprises in Kuantan Singingi Regency such as (1) Personal Aspect, (2) Business Aspect, (3) Government Assistance, (4) Efficiency, moderated by level, and (5) Financial Literacy. The findings show that the average level of efficiency of small and medium enterprises in the Kuantan Regency cannot be considered to be efficient because community knowledge in good business management is categorized low in terms of production value. Thus, total sales need to be further optimized.

**Keywords:-** Personal Aspect, Business Aspect, Government Assistance, Efficiency, Financial Literacy.

## I. INTRODUCTION

Every entrepreneur in the era of globalization and dynamic economic conditions needs to optimize all resources to be ready in facing competition. Thus, it is necessary to create good management indecision making which consists of marketing strategies, human resource management, and financial decision making. Financial decision making includes budgeting decisions, profit allocation, savings, credit, and investment decisions. One of the most important factors of financial decision making is financial literacy. Therefore, to be able to have strong competitiveness with the outside community requires knowledge of financial literacy. According to Financial Services Authority (2013, p.24), financial literacy is a series of processes or activities to increase the knowledge, confidence, and skills of consumers and the wider community to enable them to manage finances better. Financial literacy is the ability of an individual to make decisions and manage funds owned wisely. It consists of

knowing, understanding, believing, and becoming skilled to be actively involved in managing finances for future prosperity. A survey conducted by the Financial Services Authority (2016, p.iii) showed that the level of financial literacy in Indonesia is 29.6%. This figure is an increase compared to the results of the 2013 FSA survey which was 21.8%. However, this figure is relatively small compared to the level of financial literacy in other Southeast Asian countries. Efficiency is a measure of success assessed in terms of the size of the source or cost to achieve the results and objectives of the activities carried out, both for short-term goals or long-term goals that will be realized using a variety of existing resources or production factors. Management will not be able to achieve its objectives optimally if the use of resources or factors of production is not done with the right process. A process is a systematic way to do work. Management is defined as a process because all managers, regardless of skills or special skills they must carry out certain activities that are interrelated to achieve goals (Hani Handoko, 1997:8)

The effectiveness of financial management will be realized if SME HR can increase financial literacy. The problem is when the financial literacy of SME HR is low, but the management of SMEs does not want to learn about financial literacy. It can cause SME entrepreneurs to have problems in recording financial records and financial management. Lusardidan Mitchell (2010) defines financial literacy as financial knowledge and the ability to apply it (knowledge and ability). SME managers who have low levels of financial literacy are often confused to have to invest part of the net profit. Even though some SME managers make consumer loans, but the repayment of these loans is deferred as SME obligations. Various financial experience and financial knowledge can influence investment decisions. Unfortunately, sometimes small and medium entrepreneurs only rely on experience in managing finances. In selecting funding sources, SME managers with low financial literacy might make wrong decisions, leading to high-interest costs. This situation can be said of someone exceeds taking loan funds or referred to as excess borrowing, where the allocation of the loan funds becomes inappropriate and the interest on these loans becomes the burden of the company. According to Hilgret and Jeanne (2013), the lack of knowledge about the principles of

financial management and financial problems can explain why one is not recommended to rely solely on experience in financial management.

The development of financial literacy is increasingly prevalent in this world because of the complexity of financial problems. Many people and consumers do not understand the performance of financial concepts and instruments needed in making decisions more favorable for economic welfare. A previous study by Edyanus (2018) on "Analysis of the Influence of Company Growth, Overhead Costs, and Labor Costs moderated by Government Assistance on the Efficiency of Industrial Watershed Business in Kuantan Singingi District" investigated micro, small, and medium enterprises in watershed communities in Kuantan Singingi Regency. In that study, it was very feasible for the industry to be able to further develop the business that was run. It was seen from the value of the company's growth from 2010 to 2017 which showed an average increase of 23.6% per year. Based on these phenomena, the researchers aimed to continue this study to further analyze MSMEs in the Kuantan Singingi River Watershed in the context of strengthening the economy of the watershed communities in Kuantan Singingi District. Hence, from the background explained above, the researchers conducted a study entitled "Determinants Factors of Financial Literacy and Its Impact on Efficiency of Business Management in the Framework of Strengthening the Economy of Watershed Communities in Kuantan Singingi Regency". This study was conducted to investigate to what extent and to determine whether there is a positive and negative or significant and not significant relationship between the related variables.

#### A. Geographical Conditions and Area

Kuantan Singingi Regency was divided into 6 districts and 6 sub-districts assistants. According to Regional Regulation No. 16 of 2002, the district was expanded into 12 districts with 10 villages and 190 definitive villages in 2002. In July 2012, the division was remade. Thus, Kuantan Singingi Regency currently has 15 districts with 11 villages and 218 villages.

#### B. Development of Demographics and Employment

According to Statistics Indonesia in 2016, the population of the Kuantan Singingi Regency in 2016 was 317,935 people, consisting of 163,213 male residents and 154,722 female residents. This means the sex ratio is 105.49. The population growth of Kuantan Singingi during 2012 – 2018 was 1.35% while from 2015 to 2016 was 1.16%. This low population growth provides an opportunity for the district government to conduct community development engineering and community spatial planning.

Theoretically, this study can be references to financial management, specifically on business efficiency, and various factors that influence it. This study can also be the treasury of financial management knowledge in deepening aspects of optimal use of resources to maintain efficient and effective business continuity.

## II. LITERATURE REVIEW

### A. Definition of Management

Some experts define management as follows: According to Appley and OeyLiag Lee (2010: 16), management is the art and science. Management consists of a strategy of utilizing the energy and thoughts of others to carry out an activity directed at achieving predetermined goals. There are techniques in management that are rich in aesthetic values of leadership in directing, influencing, supervising, organizing all the components that support each other to achieve the intended goals. Meanwhile, according to Andrew F. Sikula (2006:2), in general, management refers top lanning, organizing, controlling, staffing, leading, motivating, communicating, and decision-making activities performed by any organization to coordinate the variedre sources of the enterprise to bring of efficient creation of some product and service.

### B. The Concept of Efficiency

Generally, the concept of efficiency is a fundamental concept that was born from the concept of economics. However, the concept of efficiency can also be defined from various perspectives and backgrounds. In general, efficiency can be directed to the concept of achieving an outcome with optimal use of resources. Adiwarmar A. Karim (2006) stated "Efficient is doing the things right." It means doing everything in the right way to get optimal results. In economic theory, there are two general concepts of efficiency namely efficiency in terms of the economic concept and efficiency in terms of production concept.

### C. Cost

OnyWidilestariningtyas, Sony W.F, and Sri DewiAnggadini (2010:10) define costs as exchange rates, expenses, sacrifices to obtain benefits. Meanwhile, Bastian BustamiandNurlela (2010:04) stated that the cost is the sacrifice of an economic resource measured in units of money that have occurred. Cost is likely to occur to achieve certain goals. These costs have not expired, and are classified as assets included in the balance sheet. For example, product inventory in the process finished product inventory and supplies. Expenses are costs that have provided benefits and are not used up. Costs that have not yet been enjoyed that can provide benefits in the future are classified as assets. This expense is included in Profit/Loss, as a deduction from income. For example, depreciation expenses, marketing expenses, and expenses classified as operating costs.

### D. Production

Trenggonowati (2011:103) put forward the opinion of the theory of the production of goods which shows the relationship between the factors of production used (input) in the production process with the results (output) in the company's production process using inputs (production factors) in the form of the use of labor, human resources, and factors. Then, the factors of production will produce goods and services that are ready for saleresource measured in units of money that have occurred.

**E. Financial Literacy**

Financial literacy is the level of public knowledge and awareness about formal financial institutions, financial products, and services. Financial literacy includes the awareness of the features, benefits, and risks, costs, and rights and obligations of these financial products and services. With adequate financial literacy, people's skills in financial planning and management can also improve.

**III. HYPOTHESIS DEVELOPMENT**

After Based on the literature and the results of previous studies, in this study, the researchers intend to test the influence of the determinants of financial literacy and its impact on the efficiency of business management in the context of strengthening the economy of the watershed communities in Kuantan Singingi. The hypotheses proposed in this study are:

- H1 : Personal aspects affect business efficiency in Kuantan Singingi Regency.
- H2 : The business aspect influences business efficiency in Kuantan Singingi Regency.
- H3 : Government assistance influences business efficiency in Kuantan Singingi Regency.
- H4 : Financial literacy affects business efficiency in Kuantan Singingi Regency.
- H5 : Business growth, overhead cost, and labor costs influence business efficiency in Kuantan Singingi Regency, financial literacy as a moderating variable.institutions.

**IV. MATERIAL AND METHOD**

This study was carried out in a community home industry located in a watershed area in Kuantan Singingi Regency for a period of 8 months. The population in this study was all home industries in the watershed in the Kuantan Singingi Regency, which was spread in 15 districts and 150 villages out of a total of 218 villages. 150 home industries were taken as samples from a total of 750 active industries registered in the Kuantan Singingi Regency Industry and Trade Service database. The sampling technique employed was purposive sampling to determine samples based on certain characteristics considered to have a bearing in which the variables in the research unit sample contacted were adjusted to certain criteria applied based on objectives and problems. In this study, the data were collected through 2 ways which were library research by collecting secondary data and field observation to interview and filling out the questionnaire.

**A. Data Analysis Method**

This study employed a moderated regression analysis (MRA) approach in analyzing the data. However, because the dependent variable was dichotomous, moderation testing was done using logistic regression with the help of the SPSS software 23.0 version.

**V. RESEARCH FINDINGS AND DISCUSSION**

Based on the test results using logistic regression, the following findings were obtained:

Independent Variable	t <sub>count</sub>	t <sub>table</sub>	Sig	Description
Personal Aspect	2.551	1.877	0.003	has effect

Table 1:- First Hypothesis Testing Results  
Source: Processed data, 2019

The results of data processing show that the t count of the Personal Aspect variable was 2.551 and t table was 1.877, t count > t table. Meanwhile, the significance level of 0.003 was less than 0.05 and P-value < α. Thus, H1 is accepted. This means that the Personal Aspect had a significant influence on the efficiency of the productive business in Kuantan Singingi. Thus, the first hypothesis (H1) can be proven.

Independent Variable	t <sub>count</sub>	t <sub>table</sub>	Sig	Description
Business Aspect	2.513	1.966	0.001	has effect

Table 2:- Second Hypothesis Testing Results  
Source: Processed Data, 2019

Visualizes the results of data processing where Business Aspect hadt count of 2.513 and t table of 1.966. Thus we got the conclusion that t count > t table. Meanwhile, the significance level of 0.001 was less than .05 and the P-value < α, then H2 is accepted. This means that the Business Aspect had a significant influence on the efficiency of the productive business in Kuantan Singingi District. Thus, the second hypothesis (H2) can be proven.

Independent Variable	t <sub>count</sub>	t <sub>table</sub>	Sig	Description
Government Assistance	1.146	1.966	0.252	has no effect

Table 3:- Third Hypothesis Testing Results  
Source: Processed Data, 2019

Data processing shows that the t count of government assistance variable was 1.146 and the t table was 1.966. It means that t count < t table. Meanwhile, the significance level of 0.252 which was greater than 0.05 means that P-value > α, then H4 is rejected. This means that government assistancedid not have a significant effect on the efficiency of the productive business in Kuantan Singingi Regency. Therefore, the fourth hypothesis (H4) cannot be proven.

Independent Variable	t <sub>count</sub>	t <sub>table</sub>	Sig	Description
Financial literacy	2.373	1.966	0.018	has effect

Table 4:- Fourth Hypothesis Testing Results  
Source: Processed Data, 2019

The results of data processing showed that the t count of the Financial Literacy variable was 2.337 and t table was 1.966. Thus, the t count > t table was obtained. Meanwhile, the significance level of 0.018 which was smaller than 0.05 means that P-value <  $\alpha$ , then H2 is accepted. This means that Financial Literacy has a significant influence on the efficiency of the productive business in Kuantan Singingi. Thus, the third hypothesis (H3) can be proven.

Independent Variable	t <sub>count</sub>	t <sub>table</sub>	Sig	Description
Effect of Personal Aspect, Business Aspect, Government Assistance through Financial Literacy on Business Efficiency	1.803	1.966	0.032	has effect

Table 5:- Fifth Hypothesis Testing Results  
Source: Processed Data, 2019

The results of data processing show that the Personal Aspects, Business Aspects, and Business Government Assistance through Financial Literacy had the t count of 1.803 and t table of 1.966. Thus, t count > t table was obtained. Meanwhile, the significance level if 0.032 which was greater than 0.05 means that P-value <  $\alpha$ , then H5 is accepted. This means that the Personal Aspect, Business Aspect, and Government Assistance variables through Financial Literacy had a significant influence on the efficiency of the productive business in Kuantan Singingi. Therefore, the fifth hypothesis (H5) can be proven.

## VI. CONCLUSION AND SUGGESTIONS

### A. Conclusion

Based on the research results seen from the results of statistical tests and descriptions for each variable studied, and based on the discussion, several conclusions were drawn as follows:

- Business efficiency cannot be considered to be good, because there had not been seen any growth in the business being run. Automatically increases business profits cannot be expected. Product sales were still fluctuating and there was no extraordinary increase in sales. Besides, the increase in the number of consumers was also not significant.
- Community knowledge in good business financial management was still low in terms of production value and the number of sales that can be further optimized.
- Communities should be more able to develop and utilize government assistance in strengthening their industrial structure to improve the ability to produce products to sustainably expand the businesses.
- Government assistance is expected to be more targeted and equitable to what is needed by the business community. It is necessary to provide assistance and guidance on business management to enable the business to be more optimal and get more profit.

Therefore, government assistance also increases welfare for the community.

### B. Suggestions

Based on the findings of the study and referring to the conclusions that have been drawn in the previous section, the following matters are suggested:

- Business efficiency needs to be increased to increase production and profits due to increased sales and the number of consumers. Entrepreneurs need to pay more attention to business aspects and also to enhance knowledge in the financial literacy sector of business development.
- The understanding of good financial literacy needs to be increased by giving more training to entrepreneurs because the results of the study showed that many products have the potential to become superior products. Moreover, the business community in Kuantan Singingi has enormous potential to develop their business institutions.

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