



INTERNAL AND EXTERNAL ENVIRONMENT AFFECTING MICRO, SMALL, AND MEDIUM ENTERPRISES BUSINESS GROWTH

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ABSTRACT

Usaha mikro, kecil, dan menengah (UMKM) berperan penting sebagai tulang punggung perekonomian Indonesia. Dalam rangka meningkatkan program pengembangan UMKM, faktor internal dan eksternal yang berkontribusi terhadap pertumbuhan UMKM perlu dikaji. Untuk mengisi kesenjangan tersebut, penulis menggunakan keterampilan kewirausahaan dan literasi keuangan sebagai faktor internal dan akses keuangan sebagai faktor eksternal. Supaya dapat memahami korelasi antara keterampilan kewirausahaan, literasi keuangan, dan akses keuangan terhadap kinerja UMKM, digunakan metode kualitatif khususnya pendekatan *desk research* untuk memberikan perspektif yang lebih luas. Hasil penelitian menunjukkan keterampilan kewirausahaan, keterampilan literasi keuangan, dan akses keuangan memiliki korelasi positif untuk meningkatkan pertumbuhan UMKM. Ini berarti dengan meningkatkan keterampilan kewirausahaan, literasi keuangan, dan akses ke keuangan akan memungkinkan UMKM memiliki keunggulan unik untuk bersaing di pasar dan mempertahankan bisnis mereka.

Micro, small, and medium enterprises (MSMEs) play an important role as the backbone of Indonesia's economy. In order to improve MSMEs improvement of development programs, internal and external factors that contribute to MSMEs' growth need to be examined. To fill in this gap, the author uses entrepreneur skills and financial literacy as internal factors and access to finance as external factors. To understand the correlation between entrepreneurship skills, financial literacy, and access to finance towards MSMEs' performance, the qualitative method particularly the desk research approach was utilized to capture a broader perspective. The results indicate entrepreneurship skills, financial literacy skills, and access to finance have a positive correlation to improve MSMEs' growth. This implies that improving entrepreneurship skills, financial literacy and access to finance will enable MSMEs to have unique advantages to compete in the market and sustain their business.

1. INTRODUCTION

Micro, small, and medium enterprises (MSMEs) play a crucial role in the economy of developing countries, including Indonesia, as they make a significant contribution to the country's Gross Domestic Product (GDP) and workforce. According to the Coordinating Ministry of Economic Affairs Republic of Indonesia, there are 64.2 million MSMEs in Indonesia as of March 2022, accounting for 61% of the country's GDP and employing approximately 97% of the total workforce, equivalent to around 119.6 million people. Hence, the continued expansion and sustainable operation of MSMEs in Indonesia have far-reaching implications for the overall strength and stability of the country's economy, playing a leading role in stimulating economic growth, generating workforce opportunities, and contributing to the overall socioeconomic progress.

The study conducted by Indris & Primiana (2015) offers valuable insights into the nuanced interplay

between internal and external environments and their impact on the performance of small businesses in Indonesia. Their research highlights the fundamental significance of the internal environment, which encompasses factors under the organization's control, in shaping business performance (Rizal et al., 2017). This encompasses essential elements such as entrepreneurship characteristics, management capacity, marketing skills, and technology capacity. Moreover, Habiburahman et al., (2019) accentuate the critical role of financial management skills as an internal factor affecting business growth. Atkinson (2017) further highlights the potential impediment posed by a low level of financial management literacy, which can hamper business improvement.

Rizal et al., (2017) explain that the external environment, comprising factors outside a company's control, directly influences business operations, such as the legal and regulatory framework, access to

external financing, and human resource capacity. This finding aligns with the earlier study conducted by Indarti & Langenberg(2004), which suggests that access to capital positively influences the success of small businesses in Indonesia. The urgency to access external capital is supported by a survey conducted by Kata Data in Indonesia revealed that out of all the MSMEs in the country, only 60% are able to sustain their operations for a period of three months solely relying on their initial capital. Furthermore, the government's focus on improving the entrepreneurial skills and financial literacy of MSME owners has proven to be crucial for their survival, particularly during the COVID-19 pandemic (Yanto et al., 2022).

A survey conducted for MSMEs in India by Singh & Wasdani (2016) reveals various challenges encountered in accessing finance, including difficulties in providing collateral, encountering high lending rates, navigating complex procedures, lacking knowledge of credit schemes, experiencing lengthy loan processing times, facing high service fees, struggling with documentation requirements, lacking infrastructure, encountering a shortage of skilled labor, lacking a current account active for at least six months, lacking a formal accounting system, grappling with tax compliance issues, and managing enterprise registration. This situation mirrors the challenges faced by MSMEs in Indonesia, as highlighted by the (Corporation, 2020).

Past studies have shown that MSMEs' business performance and growth are shaped by both internal capabilities and external environmental factors. Key determinants of internal capabilities include the entrepreneurship skills to identify opportunities and develop competitive strategies (Subagyo et al., 2020; Wongso et al., 2020); financial literacy skills to make informed decisions and access appropriate financing options (Sohilauw et al., 2020; Susan, 2020); managerial capacity for functions like planning, financial control, and human resources (Habiburahman et al., 2019); marketing skills to effectively develop and promote products (Rizal et al., 2017); and technology adoption to leverage digital tools across business operations (Fauzi et al., 2020). Whereas external factors consist of access to financing to fund working capital and growth needs (Dewi et al., 2022; Shofi et al., 2022); conducive legal and tax policies that encourage formal registration and compliance rather than deter it (Rizal et al., 2017); infrastructure quality affecting distribution channels and supply chains (Karadag, 2015); as well as the availability of government support initiatives and resources tailored to the MSME sector Habiburahman et al., (2019). Assessing how these internal capabilities and external conditions interplay provides a comprehensive understanding of how MSMEs' growth trajectories and sustainability can be bolstered.

The Financial Services Authority Keuangan (2022) conducted a survey that revealed a financial literacy

index of 38.03% in Indonesia in 2019. MSMEs with inadequate levels of financial literacy face challenges in making informed decisions for their businesses and struggle to identify appropriate financing sources, often failing to meet the requirements of potential funding sources (Atkinson, 2017). Furthermore, MSMEs with poor financial records encounter difficulties in obtaining financing from formal financial institutions due to their inability to provide transparent and standardized financial statements necessary for formal credit rating assessments.

Despite MSMEs' vital role in the economy, they continue to face challenges in accessing financial resources. A research study conducted by International Finance Corporation (2016) shows that the loan portfolio of private commercial banks to MSMEs stood at 18,3 percent. Funding is necessary to finance for working capital, which is using loans to pay inventories, to buy equipment (International Finance Corporation, 2016) and for consumption (Harefa, 2017). While the financial sectors in Indonesia are still dominated by banks, MSMEs are not easy to obtain bank loans.

Empirical studies for the implementation of Kredit Usaha Rakyat (KUR) among MSMEs in South Sulawesi and Central Java reveal there are significant increases in credit disbursement over 5 years from 2008 to 2013 (Harefa, 2017). Despite its increases, there are many MSMEs that have not received credit though they are qualified which can be associated with a lack of socialization for example the KUR program provides credit guaranteed by third-party institutions such as PT Askrindo, which will be paid by the state if UMKM fails to pay their loans. However, this can be a boomerang for the bank because there are societal assumptions among MSMEs in Central Java that KUR is a form of credit assistance that does not require repayment. This perception is concerning from the bank side because the high Non-Performing Loans (NPL) can affect banking management scores, furthermore, if the third-party guarantor is late to make a payment (Harefa, 2017). This would make MSMEs perceived as risky borrowers.

The purpose of desk research is to analyze the internal and external aspects that affect the business performance of small enterprises in Indonesia, with the main objective of providing insights that can contribute to the improvement of development programs for MSMEs in the country. While there have been numerous studies conducted on the internal and external factors influencing the performance of small businesses, there is limited work that links the specific impact of entrepreneur skills and financial literacy as the internal factors; and access to receive financing as an external factor on the growth of MSMEs. Therefore, this study aims to fill in the gap of previous research. The previous research can be seen in Table 1.

Table 1. Previous Papers Assessing Small Business Performance

Author	Variables	Result
Philip (2011)	Small business traits, business management, products & services, source of financing, and external environment,	<ul style="list-style-type: none"> - Product & Services, management, and business operations have a positive contribution to business success - Source of financing & external environment has no positive contribution to business success
Sembiring (2016)	Knowledge & Skills of MSMEs actors	HR knowledge & skills affecting MSMEs' performance.
Campbell & Park(2016)	<ul style="list-style-type: none"> - Internal resources: Entrepreneurial orientation and Firm Capital - External Resources: Social Capital and Corporate Social Responsibility 	<ul style="list-style-type: none"> - Entrepreneurial Orientation, Firm Capital and Corporate Social Responsibility have significant effects on improving small business performance - Social Capital has no significant effect on improving business performance
Prijadi & Desiana (2017)	Working Capital, Bank-related factors, foreign exchange risk, Business owners' pertinent factors	<ul style="list-style-type: none"> - Cash, inventory, and the ability of business owners to manage inventory and cash are important factors to optimize profitability. - High debt-service-ratio will increase growth and profitability - Women as leaders of MSMEs will increase sales growth but have no impact on profitability
Menike (2018)	Financial knowledge, Financial behavior, financial influence, and financial attitude toward financial performance	<ul style="list-style-type: none"> - Financial knowledge, financial behavior, and financial influence have a positive effect on business performance - Financial attitude does not significant effect on small business performance
Sohi lau w et al. (2020)	Financial Literacy, Rational Financing Decision making, Financial Capital, and Financial Performance	<ul style="list-style-type: none"> - Financial Literacy has a direct significant on decision-making and accessing financial products and financial performance - Rational Financing capital has a direct effect on securing financial capital - Rational financing decision has a negative impact on business performance.

Source: Philip (2011), Sembiring (2016), Campbell & Park (2016), Prijardi & Desiana (2017), Menike (2018), and Sohila w et al. (2020)

2. LITERATURE REVIEW

2.1. Resource-Based View

The resource-based view theory provides an understanding that competitive advantage is a product of internal sources and capabilities acquired by the firm (Liang, 2012). The firm can outperform other competitors by combining its internal resources (McIvor et al., 2009), such as technical, human resource, and other source (Dul & Neuman, 2007). The resource-based view was first developed by (Barney, 1991). According to Barney (1991), firms' resources can be classified into the following categories: material, human capital resources, and organizational resources. The material encompasses technology, equipment, firm location, and access to raw materials. Human capital consists of the development, experience, judgment, and intelligence of management. Organizational resources include the firm's formal reporting structure, and controlling and coordinating systems. Moreover, Barney (1991) suggested an internal resource that can contribute to competitive

advantages must meet a few criteria, including value, rarity, imperfect imitability, and unique condition. To make it explicit, the resource-based view emphasizes achieving a competitive advantage that sustains even when other people try to duplicate or eliminate it (Kraaijenbrink et al., 2010).

2.2. Definition and Characteristics of MSMEs

In Indonesia, the criteria of Micro, Small, and Medium Enterprise are regulated in Indonesian Law No 20/2008, which was subsequently renewed by Government Regulation No 7/2021. Specific criteria are outlined as follows: 1. Micro-enterprises have capital of IDR 1 billion at most or annual sales revenue up to IDR 2 billion; 2. Small enterprises have capital greater than IDR 1 billion and IDR 5 billion or annual sales revenue greater than IDR 2 billion and IDR 15 billion; 3. Medium enterprises are enterprises with capital between IDR 5 billion and IDR 10 billion or annual sales revenue between IDR 15 billion and IDR 50 billion. According to data provided by (Statistik,

2020) small businesses by the number of employees: Micro comprises 1-4 employees, Small comprises 5-19 employees, and Medium comprises 20-99 employees.

Table 2. The Characteristics of MSMEs in Indonesia

	PP No 7/2021		BPS
	Annual Sales (IDR)	Capital (IDR)	Number of Employees
Micro	< 2 billion	< 1 billion	1-4 employees
Small	2-15 billion	1-5 billion	5-19 employees
Medium	15-50 billion	5-10 billion	20-99 employees

Source: Government Regulation No 7/2021 and Badan Pusat Statistik (2020)

2.3. Internal and External Environments to Improve MSMEs Business Growth

Previous studies indicate definitions of business growth vary and depend on the choice of growth indicator (Anyadike-Danes et al., 2009). Growth can be defined as generating income, value addition, and business expansion (Gupta, Guha, & Krishnaswami, 2013), the number of employments, number of sales, productivity, and firm’s survival (International Labour Organization, 2021). Generally, both internal and external environments would affect business growth (Yanto et al., 2022). Internal environments are defined as factors within the organization that affect business performance, on the contrary, external environments are defined as factors outside control organizations that would affect business performance (Rizal et al., 2017). Gupta, Guha, & Subramanian (2013) suggested strengths and weaknesses of business determined through the internal environment, whereas external factors encompasses opportunities or threats to the business. With the changing conditions in the external environment, business owners should make strategic planning by analyzing their business strengths and weaknesses with opportunities or threats. The quality of human capital accounted as an internal factor that is the most relevant factors that determine the business success (Rodrigues et al., 2021). Low quality of human capital prevents small businesses in Indonesia from achieving company growth (Utama & Ilahiyah, 2018). In other words, the quality of human resources plays the most important factor in improving the productivity of small enterprises (Nasution et al., 2022). Additionally, the external environment such as lack of access to financing plays a significant role as a barrier to achieving revenue growth.

2.3.1. Entrepreneur Skills

According to Wongso et al. (2020) entrepreneurship competency encompasses knowledge, attitude, and skills essential for entrepreneurs which need training and development in order to produce the best performance to manage businesses. International Labour Organization (2021), suggest that entrepreneurship is an individual

personality trait, that encompasses the need for achievement, and motivation to grow, that is influenced by personal background such as gender, age, and level of education. Stuetzer et al. (2013) revealed business managers with varied work experience have higher entrepreneurial skills.

In the Netherlands, entrepreneur skills are measured with the ability to strive for achievement, understand clients’ needs, creativity to turn problems into opportunities, and be flexible to adapt to a new environment (Oosterbeek et al., 2010). Innovation and risk-taking show a direct correlation towards the performance of small businesses during market turbulence (Kraus et al., 2012). Whereas in the United States, entrepreneurial orientation is assessed using SCORE which covers management and financial skills, marketing skills, personal maturity, and organization development skills, and the small business owner is trained to produce business plans. (Dahlstrom & Talmage, 2018).

In Indonesia, entrepreneurial proficiency is measured by evaluating MSME owners’ expertise in terms of communication, problem-solving, initiative, enterprise, planning, organizing, self-awareness skills, and technology. Wongso et al. (2020) Similar research conducted by (Subagyo et al., 2020), resulted in MSMEs in East Java understanding the importance of establishing relationships with customers and business partners. On the other hand, MSMEs have difficulties determining business goals meaning the practice of constructing business plans and strategies to compete in the market is still relatively low.

2.3.2. Financial Literacy

According to the National Strategy on Indonesian Financial Literacy (SNLKI), financial literacy encompasses the understanding, abilities, and self-assurance that affect attitudes and behavior to enhance the quality of decision-making and financial planning, thereby leading to the achievement of well- beings. Financial literacy would equip people to deal with the complexity of financial products and services, moreover, individuals with a strong knowledge of finance will have the advantage to do saving and investing; and efficiently managing their loans and affecting their borrowing practices (Lusardi, 2019).

In 2022 OJK conducted the National Financial Literacy and Inclusion Survey resulting financial literacy index reaching 49,8 percent, higher than in 2019 which was only 38 percent. In 2020, a study regarding financial literacy showed on average 75 percent of MSMEs in Jember categories as sufficiently literate, meaning they have knowledge about financial products and services including features, benefits, and risk, as well as rights and obligations (Lestari et al., 2020). The highest score was knowledge regarding saving and banking products, while the lowest score was regarding investments, insurance, and funding mechanisms.

2.3.3. Financial Access

According to Law No 7/1992 concerning Banking as amended, there are two types of banks in Indonesia, Commercial Banks and rural banks or Bank Perkreditan Rakyat (BPRs). Additionally, government-owned Microfinance Institute (MFIs) comprise Bank Pembangunan Daerah (BPDs) and Lembaga Dana dan Kredit Pedesaan (LDKPs) which are regulated and supervised by OJK. According to a report issued by the International Labor Organization (ILO), the financial services provider to finance MSMEs in Indonesia namely banks, rural banks, cooperatives, and crowdfunding or peer-to-peer lending. At the end of 2017, the aggregate outstanding amount of loans to MSMEs in Indonesia was IDR 883 trillion, which was divided into 76% to finance the working capital and the rest to investment loans. In 2007 the government of Indonesia introduced Kredit Usaha Rakyat (KUR) program to support MSMEs' access to banks. KUR can be distributed through Banks, rural banks, and cooperation. As for MSMEs that have no access to bank are facilitated by Pembiayaan Ultra Mikro (UMi) (Ministry of Finance, 2019).

2.4. Financial Management

Theoretically, financial management is concerned with how firms are able to manage their funding in an efficient and effective manner to accomplish the objectives of the firm (Chandra, 2013). Furthermore, financial management involves three main focuses, including liquidity and cash flow management, long-term asset acquisition, and capital structure (Jindrichovska, 2013). While (Petty et al., 2015) describe financial management as the study of how organizations evaluate investments and raise funds to finance them. Petty, the investment area covers evaluations of long-term investments (capital budgeting), how a firm obtains funds to finance investments (capital structure), and managing cash sufficiency for daily operation (working capital). Furthermore, Jindrichovska argues effective liquidity management plays a critical role in managing working capital, whereas poor cash management is the primary source problems of for small enterprises.

2.5. Financial Challenges of Small Enterprises in Developing Countries

In developing countries, the challenges related to the financial difficulties of small enterprises can be attributed to internal and external factors (Karadag, 2015). Moreover, Karadag also explains external funding is critically important for MSMEs as it provides the capacity to raise investments per worker and enhance general productivity. However, the latest report published by Bank (2022) describe small enterprises perceived as risky borrowers which closely relate to poor financial management. MSMEs find it challenging to provide comprehensive and timely manner financial reports, partly due to accounting and financial reports often being prepared with a considerable delay of 9 to 12 months (Asian

Development Bank, 2022). Additionally, most of the assets that MSMEs own are moveable assets, while financial institutions prefer immovable assets as collateral. Moreover, it is crucial to take note that external funding problems influenced the underdevelopment of financial and capital markets as sources of funds for MSMEs (Karadag, 2015).

3. RESEARCH METHODOLOGY

To understand the relationship between entrepreneurship skills, financial literacy skills, and MSMEs' firm growth, the author utilizes qualitative research methodology particularly desk research, as it delivers a more comprehensive viewpoint. Green & Cohen (2021) define desk research as collecting and organizing available information for examination, without in-person communication between authors and research participants. This encompasses both prior quantitative and qualitative studies available on the internet related to financial literacy, financial access, entrepreneur skills, and the performance of MSMEs in Indonesia. Moreover, online observation was utilized as a requirement to identify suitable individuals for correspondence, statements made by stakeholders, reports, and programs published on authorized websites.

Relevant publications and data sources were identified through searches across academic literature databases, web search engines, and organizational websites. Using combinations of keywords such as "financial literacy", "entrepreneur skills", "small business performance", and "access to finance", a range of studies reports and policy briefs were selected for their applicability to the research aims. Priority was given to recently published works focusing specifically on economic and human capital factors linked to microenterprise success. Through an iterative screening process of skimming for this relevance, a corpus of approximately 75 materials emerged to adequately capture current discourse and data around enabling conditions and barriers faced by small business owners in the local area and comparable regional contexts. This included around 50 peer-reviewed journal articles, 20 policy briefs, and government planning documents, and 5 reports from international development organizations. By bringing together works spread across siloed topics such as educational programming, regulatory frameworks, and market dynamics, this study took a holistic perspective to reveal interdependencies. Rather than assume each element acts in isolation, a key goal was to elucidate their complex intersections. This integrated analysis of around 75 recent publications and planning resources advances a more context-specific understanding of how capability building, access to financial products, and policy interventions together impact the development trajectories of microenterprises.

The primary linking terms utilized in search engine portals to distinguish the pertinent publications and sources were "financial literacy", "financial access", "MSMEs' growth", "entrepreneur skills", and "small

business performance". Many researches has been performed in the field of financial literacy, access to obtain financing and business growth. However, there is a relatively less amount of research pertinent to the relationships of entrepreneurial skills, financial literacy, and access to finance on microentrepreneurial success.

4. RESULTS AND FINDINGS

The Group of 20 (G20) summit that was held in Indonesia has the urgency to continue promoting the empowerment of MSMEs, moreover, MSMEs have an important role in Indonesia's economy and have demonstrated remarkable resilient amid the pandemic Covid-19 (Office of Assistant to Deputy Cabinet Secretary for State Documents & Translation, 2021). There are a few aspects to concern for MSMEs empowerment which are improving entrepreneurial skills, financial literacy, and increasing access to finance. The study regarding such aspects will be provided in the following passages.

4.1. Entrepreneur Skills and MSMEs Business Growth

Entrepreneurial competence is a set of skills MSMEs owner needs to require to survive the market. Although there is no definitive meaning of entrepreneurial skills, according to (Ray, 1993), entrepreneurial ability falls into seven criteria: 1. The expertise to identify new prospects; 2. The ability to evaluate opportunities and employ critical thinking; 3. Ability to communicate; 4. Negotiation skills; 5. Interpersonal skills; 6. Listening ability; 7. Problem-solving skills.

A recent study carried out by Subagyo et al. (2020), shows that entrepreneurial skills significantly affect the business performance of small entrepreneurs in East Java, Indonesia. This means, an entrepreneur's aptitude for capturing the business opportunity, constructing a business strategy, planning, implementing, and evaluating business; and lastly, MSMEs owners' ability to establish relationships with partners and customers, will enhance MSMEs' growth in terms of their sales, profit, capital, and employee.

According to literature written by Fitriani & Marditama (2020), there is evidence supporting the positive relationships between entrepreneurial competence and the success of business during the COVID-19 pandemic. It is worth emphasizing, that entrepreneurial characteristics help MSMEs owner establish a favorable business image. These findings are in line with the previous literature (Chatterjee & Das, 2016; Herlinawati et al., 2019; Musthofa et al., 2017; Wongso et al., 2020) suggesting MSMEs need to receive such development from the formal organization.

According to Atkinson (2017), entrepreneurial education has the promising capacity to increase the number of healthy small businesses and enhance their productivity. Her study indicates a low level of overall entrepreneurial skills is thought to be a challenge

throughout the various phase of an enterprise. This finding is similar to a study done by (Astuti et al., 2019), which resulting a weak connection between entrepreneurship practice and business success.

Besides development from the formal organization, a case study conducted in Appalachia explores the significance of mentoring activities to develop entrepreneur skills and leadership skills to improve the productivity of a company (Kutzhanova et al., 2009). She is suggesting with the help of coaches, entrepreneurs can expand their existing knowledge, and expertise, and perform at a higher level, which eventually solves general issues of their business independently. The mentoring activity is also effective in helping entrepreneurs to recognize their weaknesses and obstacles.

Additionally, with the support of a business coach MSMEs owners can visualize the endeavor of their firm and strategically plan the necessary actions to accomplish those goals. MSMEs that possessed high levels of managerial and entrepreneurial skills received sales revenue six times more than lower ones. This means the improvement of managerial and entrepreneurial skills increases the business performance (Kutzhanova et al., 2009).

Empirical study regarding entrepreneurship skills training in Indonesia primarily focuses at the development of entrepreneurship attitude through education training and management supervision (Indarti & Langenberg, 2004). However, this particular research highlights that providing funding to MSMEs that previously received training on entrepreneurial attitude has improved the planning process. Consequently, the MSMEs owners are now capable of creating more effective plans regarding the input, process, and output of their business and are capable of marketing their products.

The main reason why the entrepreneurial competence of MSME owners in Indonesia is deemed to be low despite the necessity to obtain entrepreneurial skills, due that MSMEs owners perceive their business sectors are low in risk (Astuti et al., 2019). As a consequence, despite experiencing a growing number of customers and sales, they have been unable to optimize profits. MSMEs may be able to run their business for a long period because of their business experience but they remain vulnerable to fluctuation in the overall economy. Lack of entrepreneurial skills is a global phenomenon. Atkinson (2017) implies there is a deficit of entrepreneur and management expertise within MSMEs in Turkey. This inadequate knowledge of entrepreneurial consisting deficiency in skills and inclination to recruit less suitable employees, unable to perform related to marketing, public relations, and trademarks, falling short of producing premium products, and unable to receive benefits economically.

4.2. Financial Literacy and MSMEs Business Growth

Many past researchers have studied the relationship between the effect of financial literacy on business owners and business growth. A recent study

conducted by Susan (2020), implies there is a significant correlation between the financial literacy of MSMEs owners and the performance of their business.

The following table is indicators that need to be considered to examine financial literacy:

Table 3. Financial Literacy Assessment

Financial Literacy	Measurements
Behavior aspects	Consistently monitor the financial report, repay to creditor on time, protect their business with insurance
Attitude aspects	Having a clear understanding of the borrowing process to finance their business operation, aware of the risks and benefits of credit.
Technical aspects	Capable to compute interest rates and knowing how to analyze the financial pattern of the firms.
Knowledge Aspects	Able to demonstrate basic bookkeeping and finance knowledge and have an understanding of maximizing profit in the company by reducing unfavorable debt.
Digitalization adaptation	Use online payment services for daily business transactions and usage of a digital platform to record transaction

Source: (Susan, 2020) and (Trinugroho et al., 2022)

MSMEs growth was evaluated by the MSME owners' aim to expand the number of workers, increase sales performance annually, expand capital compared to the previous year, and the manager's plan to obtain additional assets (Susan, 2020). The study reveals that MSMEs owners in West Java perform a good behavioral financial literacy. This is proven by the MSMEs owner's ability to examine financial reports regularly, able to fulfill financial obligations on time and buy insurance to secure the business in the future. Furthermore, according to Susan (2020). MSMEs in West Java also practice well attitude for their business. This indicates MSMEs' owners in West Java have a clear understanding of the credit process, as well as the exposure risk and cost as consumers. Both of these aspects were supported by other empirical research for MSMEs in Surabaya (East Java). More than half of the respondent shows entrepreneurs possess high knowledge regarding bookkeeping, credit, and financial analysis. In consequence, more than half of the respondents experience good business performance during a pandemic. While those with low financial literacy also experience low business performance (Heryanto & Leng, 2021).

On the technical aspects, Susan (2020) also reveals that MSMEs in West Java possess the ability to compute interest rates and are capable of identifying financial patterns. Moreover, the majority of respondents also reveal they can demonstrate basic bookkeeping, and understand reducing unfavorable debt may lead to maximizing profit. According to Lusardi (2008), people who are capable of conducting basic calculations and have knowledge of interest rates will have an economic advantage in planning for their future. The implementation of the digitalization Quick Response Indonesian Standard (QRIS) is expected to improve the efficiency of the payment system (Nada et al., 2021). Therefore, adaptation to the digitalization revolution is substantial to improve MSMEs' business growth. According to (Trinugroho et al., 2022), MSMEs receiving higher sales during the pandemic Covid-19,

which is highly influenced by the utilization of the point of sales (POS) and internet wallet, such as QRIS.

Overall, there was an increase in business growth (Susan, 2020; Trinugroho et al., 2022). The assessment of MSMEs' business growth reveals there was an increase in sales compared to the previous year (Susan, 2020; Trinugroho et al., 2022), additionally, the number of workers is also expanding. From the asset growth perspective, company assets were expanding, and MSMEs owners in West Java have plans to add more assets to their business.

To reiterate, an empirical research carried out by Susan (2020) and Trinugroho et al. (2022) found that a high level of financial literacy has an impact on business growth. This outcome suggests that all financial literacy indicators are important tools to examine factors affecting business performance. With high knowledge of managing finances by MSMEs' owners' behavior, attitude, technical, knowledge, and technology adaptation will improve the company's performance. A similar study was also conducted by Dewi et al. (2022). They assess the financial literacy of small business owners through MSMEs' ability to prepare financial statements; perform review and analysis; and understand the financial ratio, which resulting financial literacy influences business performance. Other dimensions that need to be considered are MSMEs' capacity to understand debt management and budgeting literacy, which influence MSMEs' performance, particularly in profitability, business growth, and the number of employees (Shofi et al., 2022). Nonetheless, an alternative empirical study conducted by Fauzi et al. (2020) suggests financial literacy affects small businesses in Palembang in short-term success. However, for long-term success, MSMEs should consider developing additional competencies such as digital literacy, to navigate the evolving success conducted business in digital platforms successfully.

MSMEs' financial literacy not only facilitates small enterprises' owner's decision-making regarding their

future but also to makes the most of alternative funding (Atkinson, 2017). The emergence of digital financial products as the result of technological innovation urges prospective customers to possess adequate financial knowledge, which encompasses the understanding of providers, services, and products offered, along with their benefits and costs (Suleiman et al., 2022) Suleiman suggest, without this essential knowledge, customers might bury in substantial debt or exposed to scams, frauds, personal information misused, and coercive collection methods.

Research by NG'ORA et al., (2022) implies an adequate financial literacy can be obtained through appropriate training in financial management. This statement is supported by Oduor et al., (2017), which suggests a private organization's support through training and providing information will strengthen MSMEs' financial literacy which later increases MSMEs' business performance. In Indonesia, the primary mode of delivering financial education for MSMEs is predominantly in the form of dissemination, which often carried out through workshops and consultation (Suleiman et al., 2022).

4.3. Access to Finance and MSMEs Business Growth

MSMEs' aptitude to access financing is another factor that needs to be considered to improve business performance. The survey conducted by Singh & Wasdani (2016) revealed the main financial needs of MSMEs at various stages of their growth: 1) Start-up stages: needs funding for working capital and starting enterprises; 2) Survival stages: needs funding for working capital, short-term loans, and overdraft; 3) Growth stages: needs funding for working capital, collateral financing, and short-term loans; 4) Sustenance stages: needs funding for working capital. This means, MSMEs need enough resources to meet day-to-day operating expenses and invest to grow their business.

Dewi et al., (2022) suggest there are 4 dimensions to assess small enterprise financial access: 1) MSMEs have access to obtain long-term debt; 2) Availability of finance and other sources that support time and place to export; 3) Access to credit access to credit as an obstacle to business and cash flow; 4) Payment risks that influence the decisions to export. The business growth was examined using profit growth, increase in sales, and asset growth. The results indicate that MSMEs' access to finance has a positive relationship with their business growth. Another dimension that needs to be considered to examine access to funding is formal credit information and MSMEs procedures in accessing capital, these dimensions are highlighted by Ratnawati (2020) which results in financial access to formal institutions directly improving MSMEs' performance in Malang City.

Access to formal institutions for MSMEs in Indonesia can be a form of microfinance. A case study at SMEs in Bogor suggested microfinancing in Indonesia has an impact on small business performance in terms of new product improvements,

production capacity, additional labor, revenue, and total asset increase (Chistiano & Prasetyo, 2019). This research is consistent with previous research (Shofi et al., 2022; Susan, 2020), which also emphasizes that inadequate access to finance will constrain the growth of firms (Wongso et al., 2020).

The ease of obtaining financing is often associated with MSMEs owners' financial literacy (Dewi et al., 2022). Susan (2020) also suggest before accessing financial services to improve their business, MSMEs should have a certain level of financial knowledge. Yuneline & Usdi (2020) convey that financial literacy does not influence MSMEs' decision to access funding from financial services. Small enterprise owners with high and medium levels of financial knowledge lean toward non-banks as the source of funding, the majority of funding from their equities, or lend money from family or friends.

According to Shinozaki (2012) on Asian Development Bank working paper, supply and demand MSMEs finance in Indonesia caused by information asymmetry and high transaction cost. The emergence of financial technology in Indonesia facilitates the gap in MSMEs financing (Khera, 2021). Largely fintech lending clients are MSMEs, which are used for financing business operations.

The capital market to raise investment for MSMEs should be considered, however, MSMEs face significant challenges when it comes to accessing capital markets (Shinozaki, 2012). Shinozaki also suggests the assistance of professionals like Certified Public Accountants and MSMEs consultants is crucial for MSMEs to effectively raise funds from the equity market without incurring excessive costs. Generally, government and market organizers are reluctant to launch MSMEs capital market due to perceptions of a risky market with cost inefficiency and lack of demand from MSMEs. While information regarding the benefits and obligations of the capital market is still limited among entrepreneurs (Shinozaki, 2012).

5. CONCLUSIONS

This article contributes wider understanding of the factors affecting MSMEs business growth by examining the influence of internal and external environments. The internal aspects highlight the role of entrepreneurship skills and financial literacy towards business performance, and the external factor is examined by financial access for MSMEs. The entrepreneurship skills were evaluated using three dimensions, which are: MSMEs owner's character, MSMEs owner's learning, and MSMEs' competence. MSMEs' growth was examined through an increase in growth, profit, assets, and employees. Entrepreneurs' characters, entrepreneurs' ability to learn, and entrepreneurial competence positively influence MSMEs' performance. Entrepreneurial skills training should be considered important to enhance business growth. Moreover, mentoring activities would facilitate MSMEs to acknowledge their limitations and obstacles.

Coaching also important to help MSMEs planning their business goals.

The literature demonstrated that in general MSMEs that have the capability to prepare and monitor financial reporting, understand the credit process, and able to do financial calculations to mitigate bad credit, tend to positively impact the financial performance of their business. Additionally, MSMEs experience business growth in terms of assets and employees while also intending to develop the company. This improved performance is correlated with high levels of financial literacy. This research result is important as a recommendation for MSMEs to improve their financial literacy not only to help MSMEs' decision-making to grow their business but also to help them choose effective funding to finance their business. MSMEs also need to improve their knowledge regarding digital financial products and services. This knowledge is useful for minimizing consumer risks such as debt, scams or defrauding, data misuse, and aggressive collections. Financial literacy can be obtained through financial training. In Indonesia, the majority of financial management training is through dissemination.

A significant correlation between MSMEs' ability to access finance towards their business growth is reflected in this research, this is because MSMEs need enough money to operate their business activities and develop their business further. In this research, the elements that need taken into account are access to long-term debt, finance to support export activities, payment risk, formal credit information, and procedures for accessing capital. Business growth is measured by profit, sales, and asset growth. The result is access to finance has a positive relationship to business growth. Meanwhile, the ease of obtaining lending from formal financial institutions is influenced by financial literacy. However, people with high levels of financial literacy do not seek financial assistance from lending, as people consider obtaining funding from their own equities or borrowing from family or friends. The gap between the supply and demand of MSMEs financing in Indonesia is caused by information asymmetry and high transaction costs. To address these issues, fintech lending should be considered. Capital market to raise investment for MSMEs funding should be considered as an alternative financing. Inefficiency cost and risky market are the main constraints to implement. MSMEs' owners' ability to adapt to digitalization also affects their sales performance. This is because the digitalization of payment services offers efficiency to transaction activity. Therefore, QRIS usage needs to be normalized among MSMEs in Indonesia.

Based on the findings discussed, below are some suggestions the author could provide:

1. It is recommended that government, policymakers, and relevant institutions develop programs to enhance entrepreneurial skills and financial literacy not only in the forms of formal education but through mentoring and coaching sessions. This way MSMEs will be able to address

their business constraint that eventually help them solve problems independently. Coaching sessions will increase MSMEs business acumen and develop action plans to achieve their business goals.

2. Government also needs to educate the importance of entrepreneurial skills towards business growth. This will improve MSMEs understanding to obtain entrepreneur skills and change MSMEs owner perceptions.
3. It is essential to increase financial literacy in terms of debt management and credit schemes to reduce Non-Performing Loan (NPL).
4. Education regarding formal credit, procedural framework to accessing formal credit, and implication of NPL is also important
5. With the emergence of alternative digital financial products and services, government and financial services need to be followed with proper education regarding risk and benefits.
6. It is essential for the government and policymakers needs to improve MSMEs legal protections to reduce risks of fraud, and misused data.
7. The government and policymakers should consider a capital market to fund MSMEs and find strategic ways to reduce costs.

6. GAP AND IMPLICATION

Findings from this study have implications to the improvement of development programs for MSMEs in Indonesia. This research studies the internal and external factors that affect business performance of small businesses in Indonesia, with the main objective of providing insights that can contribute to the improvement of development programs for MSMEs in the country. Have a high level of entrepreneur skills will give advantages to MSMEs owners to improve their business and compete in the market compared to those who don't.

Financial literacy will increase MSMEs growth, this finding implies that MSMEs with high financial literacy have the advantage of analyzing their financial performance, and debt management know-how, and constructing financial reports will increase sales, increase the number of employees, and increase their assets. Third, access to capital will increase MSMEs growth, which implies that external factors need to be considered as indicators of business growth. MSMEs whom receive long-term financing, and financing to support their working capital and export business, as well as low risk, will improve their business growth and those whom does not receive financing.

The arguments regarding MSME performance are supported by a number of established findings which are important as a basis for MSMEs owner to use these indicators as assessment to cater to which factors affect their business growth or hinder their business from growing. By understanding this, MSMEs owners can effectively tailor which factors need to be improved for their future endeavors.

Based on the findings discussed in this study, here are some suggestions for future research:

1. Since many studies have been conducted in Java, it is expected that future studies can be done empirically for different cities outside Java to thoroughly capture internal and external factors affecting small business performance in Indonesia.
2. It is important to analyze which financial access (distinguishing between formal financial institutions and alternative financial institutions such as fintech lending or equity crowdfunding that is available in Indonesia) that have better impact on MSMEs' business performance.
3. Future research can enhance its methodology by incorporating other variables that are either mediating or moderating variables to improve the performance of MSMEs. Additionally, examine different subjects within this context.
4. With the variety of MSMEs business sectors in Indonesia, it is crucial to examine other sectors of MSMEs in Indonesia and make comparisons.

7. LIMITATIONS

This study has several limitations stemming from its qualitative methodology and reliance on secondary literature focused predominantly within the Indonesian context. Firstly, the desk research approach centers on discourse and data related to Indonesian MSMEs, especially those operating in Java, limiting the generalizability of findings to small businesses in other geographic and cultural settings. Secondly, the analysis solely utilized secondary sources rather than including primary survey or interview data from business owners. This risks inadequately capturing on-the-ground realities faced by entrepreneurs. Additionally, the research did not segment across industry sectors, losing the specificity of challenges faced in areas like manufacturing, agriculture, or services.

The study also centered on a static analysis of correlations rather than leveraging longitudinal data to establish causality or lead-lag effects over time. Finally, coverage of fiscal determinants concentrated narrowly on access to credit rather than fully addressing issues like tax policy, public procurement practices, or subsidy retraction risks.

To mitigate these limitations in line with reviewer feedback, future studies could prioritize incorporating wider cross-country samples, sector-specific analyses, time-series data, primary interview material directly from MSME owners, and expanded breadth related to taxation, regulation, and government procurement policies. Researchers should also clearly delineate scope conditions related to geographic concentration and reliance on published secondary literature. Addressing these constraints and recommendations can strengthen the validity and generalizability of ongoing investigations into small business performance determinants.

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