

Correlation of Financial Management with MSME Performance: A Systematic Review of Literature

Amelia Sugangga

Universitas Negeri Malang

Sudarmiati

Universitas Negeri Malang

Ludi Wishnu Wardana

Universitas Negeri Malang

Jl. Semarang No. 5, Sumbersari , Kec . Lowokwaru , Malang City, East Java 65145

Corresponding author: amelia.sugangga.2304139@students.um.ac.id

Abstract: *In the midst of global economic turmoil, Micro, Small and Medium Enterprises MSMEs in Indonesia play an important role as the backbone of the local economy. MSMEs face serious challenges that affect the performance of MSMEs. The novelty of this research lies in the approach of a combination of systematic literature review and in-depth empirical research. Involving stakeholders, especially MSME owners and financial management practitioners, provides valuable practical perspectives. This research has important implications for government policy, related institutions, business practitioners, and academia. The findings are expected to be a strategic guide for the development of training programs, more effective financial management models, and policies that support MSME growth. The method used in this study is Systematic Literature Review (SLR) by collecting and analyzing journals related to keywords. Based on the literature study conducted, it was found that the need for more in-depth regarding the relationship between financial management and MSME performance can provide policy guidance for the government and related institutions, as well as practical insights for MSME owners, business practitioners, consultants, and academics in developing financial management models that are more effective and relevant in the context of MSMEs in Indonesia. This research covers important aspects and makes a substantial contribution in the understanding of the relationship between financial management and MSME performance.*

Keywords: *MSMEs; Financial Management; MSME performance.*

INTRODUCTION

In the midst of global economic turmoil, an interesting phenomenon is developing in Indonesia, especially in the realm of Micro, Small and Medium Enterprises MSMEs. MSMEs in this country are not just business entities; They are the backbone of the local economy (Setyawati, Azadilah, et al., 2023; Setyawati, Lestari, et al., 2023; Setyawati, Wibowo, et al., 2023). Especially in remote areas and small urban areas, MSMEs not only create jobs, but also become pillars of the economic life of local communities. In recent years, Indonesia has witnessed serious challenges faced by some Micro, Small and Medium Enterprises MSMEs, which is reflected in the decline in their performance.

Muafi, (2020); Ogheneogaga Irikefe & Isaac Opusunju, (2021); Purwanto et al., (2022) He also explained about the performance of Micro, Small and Medium Enterprises MSMEs in Indonesia have a very important role in the country's economy. As an integral part of the economic structure, MSMEs have made a significant contribution to job creation,

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* Amelia Sugangga, amelia.sugangga.2304139@students.um.ac.id

increasing community income, and moving the wheels of the economy at the local and national levels. One of the factors that strengthens the role of MSMEs is their resilience in facing various economic challenges (Kusumadewi & Sulistyowati, 2022; Syaifullah et al., 2021). MSMEs are often able to adapt quickly to market changes and have flexibility that allows them to survive in dynamic economic conditions. The diversity of MSME business sectors, ranging from the agricultural sector, creative industries, to services, shows an even contribution in filling various market needs.

The performance of Micro, Small and Medium Enterprises MSMEs in the context of this study refers to how well and effectively MSMEs are in carrying out their business activities. It covers various aspects, such as productivity, profits, growth, and contribution to the economy as a whole. This is also explained by Hudnurkar et al., (2022); Megawati et al., (2020); Yun, (2022) that the performance of MSMEs can be measured from a number of factors, such as increased sales, operational sustainability, and positive impacts on the surrounding community. MSMEs that have good performance are usually able to produce quality products or services, attract market interest, and obtain sufficient profits to support the sustainability of their business.

In addition, the competitiveness of MSMEs is also an important performance indicator. MSMEs that are able to compete in the market, both in terms of price, quality, and innovation, tend to have positive performance (Bakaritantri, 2022; Baral et al., 2022; Tjandera & Hariandja, 2019). The ability to adapt to market changes and implement effective strategies is also an important part of MSME performance. On the other hand, aspects of social sustainability are also a consideration in assessing the performance of MSMEs. How MSMEs contribute to local community empowerment, job creation, and environmental sustainability also reflects good performance from a social and ecological point of view. In other words, the performance of MSMEs is not only seen in terms of finance, but also involves other dimensions that include positive impacts on the surrounding environment and society in general. In the context of this study, the performance of MSMEs illustrates the extent to which small and medium enterprises can provide significant benefits and contributions to local economic growth and community welfare.

Therefore, the importance of improving the performance of Micro, Small and Medium Enterprises MSMEs in Indonesia not only creates a positive impact at the business level, but also has significant implications for economic growth and overall community welfare. According to Hasan et al., (2021); Kumar et al., (2022); Solarte-Montufar et al., (2021) improving the performance of MSMEs means providing a strong economic boost. MSMEs are

the main drivers of the economy, accounting for the majority of gross domestic product and creating jobs for millions of people. By improving their performance, the potential to increase the economic contribution of the MSME sector becomes even greater.

Moreover Kurniawati et al., (2021); Lestari et al., (2020) Explaining that improving the performance of MSMEs also means increasing national competitiveness. MSMEs that are able to compete in the global market can help improve Indonesia's image and reputation in the eyes of the world. This not only creates greater export opportunities but also opens the door to foreign investment and cross-border collaboration that can strengthen the national economy. Furthermore, improving the performance of MSMEs supports economic inclusivity. MSMEs, often located in remote areas or small urban areas, can be equitable agents of development (Adiandari, 2022; Candra et al., 2022; Setyawati, Rahman, et al., 2023). By providing support to MSMEs, we can ensure that economic benefits are not only felt in large urban centers but also spread to areas that may have previously been marginalized.

While Rao et al., (2019) conveying from a social perspective, improving the performance of MSMEs can have a direct impact on improving community welfare. By creating more jobs, MSMEs not only provide better livelihoods for business owners but also empower workers and surrounding communities. In this case, MSMEs play a role as agents of poverty reduction and welfare improvement. By strengthening the performance of MSMEs, it can create an innovative and sustainable business ecosystem. MSMEs are often the birthplace of creative ideas and new business models. Support for this innovation can accelerate the development of a knowledge and technology-based economy in Indonesia (Efendi et al., 2020; PRASETYO, 2020; Singh, 2019). Thus, the importance of improving the performance of MSMEs is not only limited to the business level, but has a much broader impact, forming the foundation for inclusive, sustainable, and competitive economic growth at the global level.

However, in the midst of the glittering world of Micro, Small and Medium Enterprises MSMEs in Indonesia, they find themselves faced with various challenges that color their business journey. One of the main challenges faced by MSMEs in Indonesia is the constraint of access to financing. Many of them have difficulty in obtaining adequate financial support, both due to difficult requirements and complicated loan application processes (Amry Mahdan Abrari, 2023; Business & Ehrenhard, 2020; Mohanty & Mohanty, 2018). Limited capital and technology are also a thorn in the meat of MSMEs (Dwi Hernanik et al., 2023; Vijayakumar Bharathi et al., 2023). Most of these small and medium-sized businesses are often constrained by limited capital, making it difficult to develop and modernize their operations (Cholid

Mawardi & Kodir Djaelani, 2022; R. D. Sari et al., 2023). These constraints can be detrimental to their competitiveness in an increasingly competitive market.

On the other hand, according to Aji et al., (2023); Athief et al., (2022); Joe, (2019); Riza & Mutiarni, (2022) The lack of managerial skills among MSME owners is also a serious obstacle. Strategic planning, effective marketing, and limited financial management can be obstacles to business growth. MSME owners need to continue to improve their skills in order to manage their business more efficiently. Hillary, (2018); Ina Ibor et al., (2019) He also said that financial management among Micro, Small and Medium Enterprises MSMEs in Indonesia often involves a number of problems that can affect business stability and growth. One of the main obstacles is the difficulty in obtaining access to adequate financing. Strict requirements and a complicated loan application process make some MSMEs hampered in accessing financial resources.

In addition, the lack of knowledge and skills in financial management becomes a serious challenge (Anthanasius Fomum & Opperman, 2023; Riza & Mutiarni, 2022; Yuliawati, 2023). Many MSME owners do not fully understand the concepts of budget planning, cash management, and financial analysis. The lack of orderly financial administration is also a problem, with disorganized financial records, difficulty monitoring cash flow, and difficulty in making decisions based on accurate financial data (Aji et al., 2023; Amry Mahdan Abrari, 2023; Mohanty & Mohanty, 2018). High dependence on external financing, inadequate risk management, and lack of efficient use of financial technology are also obstacles that need to be overcome. Solutions to overcome this problem require a comprehensive approach, including increasing financial literacy, implementing better management practices, and support from the government and financial institutions to increase access and understanding in financial management among MSMEs.

To provide a solution to the lack of understanding of MSME financial management Amry Mahdan Abrari, (2023); Athief et al., (2022); Joe, (2019) explained that the understanding of financial management by Micro, Small and Medium Enterprises MSMEs has a very important role in maintaining business stability and growth. First of all, a good understanding of financial management allows MSME players to make smarter financial decisions. By understanding concepts such as budget planning, financial analysis, and cash management, they can optimize the use of financial resources, identify potential investment opportunities, and manage financial risk more effectively.

Business & Ehrenhard, (2020); Dwi Hernanik et al., (2023) also explained that understanding financial management helps MSME players in maintaining the liquidity of their

business. By monitoring cash flow, you can identify and address financial problems before they become a serious crisis. An understanding of the business financial cycle also enables MSME players to manage debt and bill payments, maintain short-term financial stability, and plan for sustainable business growth. The importance of understanding financial management is also seen in business competitiveness. MSME players who are able to manage their finances well have a competitive advantage. They can adapt their business strategies to market conditions, respond to economic changes, and remain competitive in the midst of fierce competition (R. D. Sari et al., 2023; Tantri et al., 2022; Vijayakumar Bharathi et al., 2023).

Next Cholid Mawardi & Kodir Djaelani, (2022); and Yusgiantoro et al., (2019) providing an explanation of financial management understanding can be an opportunity for MSME actors to access additional financial resources. Banks and financial institutions are often more willing to provide financial support to MSMEs that can demonstrate a good understanding of financial management, as this reflects the credibility and sustainability of the business. Understanding financial management also plays a key role in creating economic sustainability at the micro and macro levels (Irman et al., 2021a; Nadeak et al., 2021). By having a financially sound business, MSMEs can make a greater contribution to national economic growth, create jobs, and improve the welfare of the surrounding community. Overall, understanding financial management is not just a technical skill, but is the foundation for the sustainability, growth, and competitiveness of MSMEs in a dynamic economy.

While there have been several studies documenting the crucial role of Micro, Small and Medium Enterprises MSMEs in the Indonesian economy as well as the challenges faced by the sector, there is a research void in systematically exploring the correlation between financial management and MSME performance. Some previous studies may have addressed certain aspects of financial management or MSME performance, but no studies have comprehensively evaluated these relationships through a systematic literature review approach.

There is a lack of strong empirical evidence on how effective financial management can have a positive impact on the performance of MSMEs in Indonesia. Although the literature provides insight, careful and detailed empirical research is lacking. Therefore, this study aims to fill this empirical gap by exploring findings that can provide a more solid evidence base. The participation of stakeholders, especially from MSME owners and financial management practitioners, in the context of this study has not been adequately explored. Their participation can provide valuable practical insights, and this study aims to fill participatory gaps by involving them directly in research.

Based on the description above, this study will make a significant contribution by presenting a new understanding of the relationship between financial management and MSME performance in Indonesia through a systematic literature review approach. In addition, this study also seeks to provide new insights through more in-depth empirical research, which can open up new perspectives related to the key factors that influence the relationship. This research is urgent because it can provide practical and strategic guidance for MSMEs to improve their financial management, which in turn can strengthen their business performance.

The results of this study are expected to provide policy guidance to the government and related institutions to develop in-depth training and mentoring programs related to financial management for MSMEs. In addition, the findings of this research are also expected to provide insights for business practitioners, consultants, and academics to develop more effective and relevant financial management models in the context of MSMEs in Indonesia.

THEORETICAL

The theoretical overview outlined in this study comes from a number of relevant previous studies, as the basis for the theoretical framework, determination, and analysis of the study as follows

MSMEs in Indonesia

Micro, Small and Medium Enterprises MSMEs in Indonesia play a central role in portraying the diversity and economic dynamics of the country. Over time, there has been a significant increase in the number of MSMEs, which not only cover various sectors, but also spread throughout the country. In relation to Law No. 20 of 2008, the status of MSMEs as the backbone of the national economy is further strengthened, recognizing their substantial contribution to Gross Domestic Product (GDP) and employment. The growth of MSMEs in Indonesia reflects the success in bringing diversification of the business sector. There is a strong presence in the manufacturing industry, trade, service sector, and other sectors. This phenomenon shows the adaptability of MSMEs in responding to evolving market needs. However, behind the achievements and positive dynamics, MSMEs are faced with various challenges. One of the main obstacles is the difficulty in accessing adequate financing. The complicated loan application process and strict requirements are obstacles, especially for MSMEs that are just starting to develop.

Ogheneogaga Irikefe & Isaac Opusunju, (2021); Rosyadah et al., (2022) explained that there are still limitations in adopting the latest innovations. Financial literacy and managerial skills are also in focus, as some MSMEs face challenges in understanding and managing aspects of their business management, including financial, marketing, and

operational planning. On the other hand, MSMEs in Indonesia play a strategic role, especially in remote areas. They not only create jobs, but also drive the local economy by contributing to increasing people's incomes and empowering the economy at the local level (Amri et al., 2021; Kilay et al., 2022; Syaifullah et al., 2021). In addition to economic contributions, MSMEs are also recognized for their role in sustainable development. Improving the performance of MSMEs is expected to support inclusive and sustainable economic growth, embracing economic, social, and environmental aspects.

By understanding the dynamic condition of MSMEs and the challenges faced, support and guidance from the government, financial institutions, and other related parties is essential. This is necessary to ensure the continuity and resilience of the MSME sector, enabling them to continue to play a key role in supporting Indonesia's economic growth and prosperity.

Financial Management

Financial management in Micro, Small and Medium Enterprises MSMEs plays a crucial role in maintaining business stability and growth (Aritonang et al., 2023; Wibowo & Christian Widayat, 2023). First of all, the financial management aspect includes careful budget planning. MSMEs need to have a structured financial plan, including projections of income, expenses, and allocation of funds for various business needs. This helps in identifying the required financial resources and ensuring the availability of funds to run day-to-day operations. Furthermore, cash management is an important instrument in ensuring the liquidity of MSME businesses. Careful monitoring of cash inflows and outflows helps prevent liquidity shortages that could hamper operations. Effective cash management also involves debt repayment policies and bill acceptance that can support short-term financial stability (Irman et al., 2021b; Megawati et al., 2020).

In addition, diversification of funding sources is an integral part of MSME financial management. In addition to dependence on bank loans, MSMEs need to find financing alternatives such as investors, partnerships, or non-traditional funding sources. This helps reduce financial risk and increase flexibility in managing business finances (Baral et al., 2022; Official et al., 2021). Risk management aspects must also be considered in the context of MSME financial management. Identifying, assessing, and managing financial risk helps MSMEs deal with economic uncertainty and market changes. Business continuity can be improved through appropriate risk mitigation strategies (Bhatti et al., 2022; Kyal et al., 2022).

MSME Performance

The performance of Micro, Small and Medium Enterprises MSMEs in Indonesia involves a series of aspects that reflect their resilience, efficiency, and positive impact on the

economy and society. Business growth is one of the main indicators, measured through increased sales, market expansion, and overall business development. In addition, productivity is also a focus, with monitoring output per hour worked and operational efficiency (Anthanasius Fomum & Opperman, 2023; Aritonang et al., 2023; Singh, 2019).

The ability of MSMEs to innovate and differentiate themselves from competitors is reflected in product creativity, the application of new technologies, and unique marketing strategies. Operational efficiency, including stock and supply chain management, is also an important element in evaluating performance. Competitiveness in the market is measured through monitoring price, product quality, and position in the market (N. T. P. Sari & Kusumawati, 2022; Wibowo & Christian Widayat, 2023). In addition, MSMEs are also assessed from the perspective of legal compliance and social responsibility. This includes compliance audits, environmental policies, and involvement in social or community activities. Furthermore, the performance of MSMEs is not only viewed in terms of finance, but also from their impact on the local ecosystem. Contribution to job creation, participation in local development programs, and support for local communities are equally important parameters.

METHODS

This study uses systematic literature (*Sistematic Literature Review* / SLR) which discusses the problem of improving MSME performance in the post-pandemic era through Financial Management. Literature study research is a process or activity of collecting data from various literature such as books and journals to compare the results of one research with another (Nowell et al, 2014).

The purpose of this literature study research is to obtain a theoretical foundation that can support the solution of the problem being studied and reveal various theories relevant to the case, more specifically in this study researchers examine the problems of MSME Performance and Financial Management. This literature study is a thorough summary of several research studies determined based on a particular theme. The data used in this study are secondary data obtained not from direct observation, but obtained from the results of research that has been carried out by previous researchers.

Secondary data sources obtained are articles from reputable journals with predetermined themes. The literature search in this literature study uses the databases Taylor and Francis, Springer, Elsevier, MDPI and Emerald Insight. The search for publication articles on the search engine (Search Engine) above uses keywords, namely: "MSMEs, Financial Management, MSME Performance". Search process or search process is used to obtain relevant sources to answer problem formulation / Research Question (RQ) and other related references

using Search Engine Dimensions (<https://www.springer.com/gp/subjects>). From the identification results, more than 7228 articles were obtained. Furthermore, article filtering is carried out according to access criteria, year, type of content and abstract analysis. As a result, 1033 article titles were obtained. From the title of the article, then filtered based on the feasibility of the topic of digital transformation through abstract analysis, the results of 6 articles were obtained. For more information, it looks like in the following image:

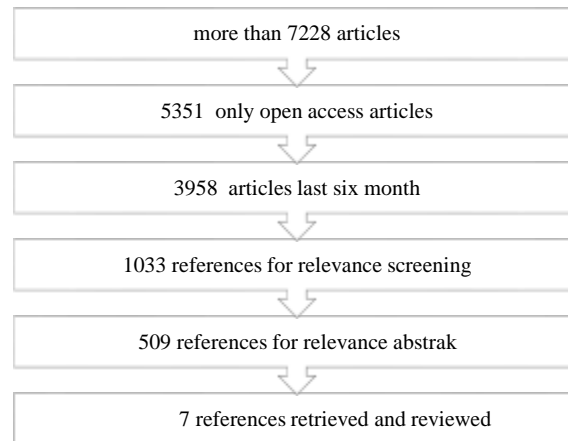


Figure 1. Article Filtering Flowchart

RESULTS AND DISCUSSION

Result

The results of the selected article review answer the formulation of problems regarding the distribution of journals that discuss Entrepreneurship Learning in Higher Education through Business Incubators, as follows:

Table 1. Distribution of related journals on MSME Performance, Financial Management

No	Journal Name	Journal Link	Indexation	Sum
1	European Research on Management and Business Economics	European Research on Management and Business Economics Elsevier	Elsevier	2
2	Journal of Innovation and Knowledge	Journal of Innovation and Knowledge Elsevier	Elsevier	2
3	Journal of Management	Journal of Management Sage Publish	Sage Publish	4
4	Cogent Business and Management	Cogent Business and Management Taylor & Francis	Taylor & Francis	2
5	Sutainability	Sutainability MDPI	MDPI	2
6	European Research on Management and Business Economics	European Research on Management and Business Economics Elsevier	Elsevier	2
7	Business Process Management Journal	Business Process Management Journal Springer	Springer	4

Source : processed by researchers, 2023

Discussion

Based on the results of a review of several relevant research articles, systematically research on the Performance of Micro, Small and Medium Enterprises MSMEs in Indonesia through Financial Management that the performance of Micro, Small and Medium Enterprises (MSMEs) in Indonesia through financial management can be expanded in several aspects to provide a more in-depth picture. First, the importance of MSMEs as the backbone of the local and national economy cannot be underestimated. Especially in remote areas and small urban areas, MSMEs not only create jobs, but also become the economic strength of local communities. The diversity of MSME business sectors, ranging from agriculture to creative industries, shows an even contribution in meeting market needs.

Hidayat et al., (2020); N. T. P. Sari &; Kusumawati, (2022); Y. W. Sari et al., (2023) The challenges faced by MSMEs, such as limited access to financing, limited capital, and lack of managerial skills, create a foundation for discussing the role of financial management. Understanding of financial management by MSME players is emphasized as a key element in maintaining business stability and growth. This means that MSME owners need to understand concepts such as budget planning, financial analysis, and cash management to optimize financial resources and manage financial risks more effectively.

Kawira et al., (2019); Muafi, (2020) highlights that effective financial management has a positive impact on the performance of MSMEs. Smart financial decisions, business liquidity management, and increased competitiveness in the market are all results from a good understanding of financial management. In this context, financial management skills are crucial for MSME owners to maintain financial stability and plan for sustainable business growth.

Cholid Mawardi &; Kodir Djaelani, (2022); and Yusgiantoro et al., (2019) providing an explanation of financial management understanding can be an opportunity for MSME actors to access additional financial resources. Banks and financial institutions are often more willing to provide financial support to MSMEs that can demonstrate a good understanding of financial management, as this reflects the credibility and sustainability of the business. Understanding financial management also plays a key role in creating economic sustainability at the micro and macro levels(Irman et al., 2021a; Nadeak et al., 2021).

The discussion then led to policy implications, especially in supporting financial management and access to financing for MSMEs. The need for support from the government and related institutions to increase financial literacy among MSME actors is an important point. Encouraging policies that facilitate access to financing and improve managerial skills is also a key strategy to support MSMEs(Hermawati, 2020; Prasetyo, 2020). While financial

management is considered a key factor, the discussion also highlights specific challenges that MSMEs need to address. Lack of managerial skills, difficulty accessing financing, and technological limitations are common obstacles. Therefore, holistic solutions are needed, including improved financial literacy, implementation of better management practices, and financial technology support.

The importance of understanding financial management by MSME owners is not only at the business level, but also has a broad economic impact. MSMEs that are able to manage their finances well not only create greater export opportunities but also open doors for foreign investment and cross-border collaboration. Improving MSME performance is also associated with economic inclusivity, where support for MSMEs can ensure that economic benefits are felt in various regions. The results of this study also include social aspects, where improving the performance of MSMEs can improve community welfare. By creating jobs and empowering surrounding communities, MSMEs act as agents of poverty reduction. In addition, MSMEs are often a source of innovation and new business models, supporting the development of a knowledge and technology-based economy (Beurekat & Setyawati, 2023; Kurniawati et al., 2021).

The importance of understanding financial management by MSME actors is not only at the business level, but also has a broad economic impact. MSMEs that are able to manage their finances well not only create greater export opportunities but also open doors for foreign investment and cross-border collaboration. Improving MSME performance is also associated with economic inclusivity, where support for MSMEs can ensure that economic benefits are felt in various regions.

Based on the description of the discussion above, this study highlights the need for more in-depth empirical research on the relationship between financial management and MSME performance. There is a lack of strong empirical evidence, and this study is expected to provide a more solid evidence base. The research also provides encouragement to engage direct stakeholders, such as MSME owners and financial management practitioners, to gain more valuable practical insights.

The results of this study are expected to provide policy guidance for the government and related institutions in developing in-depth training and mentoring programs related to financial management for MSMEs. The findings of this research are also expected to provide insights for business practitioners, consultants, and academics to develop more effective and relevant financial management models in the context of MSMEs in Indonesia. Thus, this

research covers various important aspects and makes a substantial contribution in understanding the relationship between financial management and MSME performance.

CONCLUSION AND RECOMMENDATION

Conclusion

This research highlights the need for more in-depth empirical research on the relationship between financial management and MSME performance. The results of the research are expected to provide policy guidance for the government and related institutions, as well as practical insights for MSME owners, business practitioners, consultants, and academics in developing financial management models that are more effective and relevant in the context of MSMEs in Indonesia. This research covers important aspects and makes a substantial contribution in the understanding of the relationship between financial management and MSME performance.

Recommendation

Based on research findings on financial management and MSME performance in Indonesia, there are a number of suggestions and recommendations that can be proposed to support the development of MSMEs and improve understanding of financial management among MSME actors. Here are some suggestions to consider:

- 1) An intensive training program in financial management specifically for MSME owners is required. The government and related institutions can work with education and training institutions to organize courses or workshops that accommodate the practical needs of MSMEs in managing their finances.
- 2) Support the development of applications and digital resources that are easily accessible to MSMEs. Such applications can include budget planning tools, simple financial analysis, and cash management guides to assist MSMEs in managing their finances without requiring high-level financial skills.
- 3) The government can facilitate MSME access to financing by simplifying the lending process and providing incentives to financial institutions to support MSMEs that implement good financial management practices.
- 4) Encouraging increased financial literacy among MSME actors. It can be done through counseling campaigns, seminars, and financial literacy materials that are easy to understand so that MSME owners can manage their finances better.

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