THE INFLUENCE OF MANAGERIAL CAPABILITIES, FINANCIAL LITERACY, AND RISK MITIGATION ON MSMEs BUSINESS SUSTAINABILITY

a Dewi Nurjannah, b Ery Tri Djamika Rudijanto Wahyu Wardhana, c Puji Handayati, d Agung Winarno, e Muhammad Jihadi

ABSTRACT

Purpose: The purpose of this study was to analyze the relationship between managerial capabilities on MSMEs business sustainability, the relationship between financial literacy on MSMEs business sustainability, the relationship between financial literacy on MSMEs business sustainability.

Method: This research uses quantitative research methods. Quantitative research methods are used because in this study, the relationship between the variables to be studied has a causal relationship, to examine certain populations and samples, and aims to test the established hypotheses. The measurement scale in this study uses a Likert scale of 1 to 5 with categories namely strongly disagree, disagree, disagree, agree and strongly agree. With data collection techniques using online questionnaires. The analysis technique uses SEM (Structural Equation Modeling) with SmartPLS 3.0 software tools. Respondents in this study were 876 MSME owners who were determined by simple random sampling. Data analysis techniques use variable calculations based on variable operational definitions.

Result: From the analysis that has been done, it can be concluded as follows. Managerial ability partially has a significant effect on the Defensive Strategy of MSMEs actors, Financial Literacy partially has a significant effect on the Survival Strategy of MSMEs actors. Partially, Risk Mitigation has a significant effect on the Survival Strategy for MSMEs actors

Implication: To encourage an increase in MSMEs Business Sustainability, MSMEs management must encourage an increase in managerial capabilities, financial literacy, and risk mitigation variables. the higher the managerial ability, the more suitable the competitive strategy that is formulated and implemented in SMEs. Managers are the main actors of the company, thus the better the managerial ability of a manager, the company's performance will increase.

Keywords: managerial capabilities, financial literacy, risk mitigation, business sustainability, MSMEs, structural equation modeling, Indonesia.
A INFLUÊNCIA DAS CAPACIDADES GERENCIAIS, DA ALFABETIZAÇÃO FINANCEIRA E DA REDUÇÃO DE RISCOS NA SUSTENTABILIDADE DOS NEGÓCIOS DAS MPMES

RESUMO

Objetivo: O objetivo deste estudo foi analisar a relação entre as capacidades de gestão sobre a sustentabilidade empresarial das MPME, a relação entre a literacia financeira sobre a sustentabilidade empresarial das MPME e a relação entre a literacia financeira sobre a sustentabilidade empresarial das MPME.

Método: Esta pesquisa utiliza métodos de pesquisa quantitativa. Métodos de pesquisa quantitativa são utilizados porque neste estudo, a relação entre as variáveis a serem estudadas tem relação causal, para examinar determinadas populações e amostras, e visa testar as hipóteses estabelecidas. A escala de medida neste estudo utiliza uma escala de Likert de 1 a 5 com categorias, ou seja, discordo, discordo, concordo e concordo fortemente. Com técnicas de coleta de dados usando questionários online. A técnica de análise usa SEM (Structural Equation Modeling) com ferramentas de software SmartPLS 3.0. Os entrevistados neste estudo foram 876 proprietários de MSME que foram determinados por amostragem aleatória simples. Técnicas de análise de dados usam cálculos variáveis com base em definições operacionais variáveis.

Resultado: A partir da análise que foi feita, pode-se concluir da seguinte forma. A capacidade de gestão tem um efeito significativo na estratégia defensiva dos intervenientes nas MPME, A alfabetização financeira tem um efeito significativo na estratégia de sobrevivência dos atores das MPME. Em parte, a atenuação do risco tem um efeito significativo na estratégia de sobrevivência para os intervenientes das MPME.

Implicação: Para incentivar o aumento da sustentabilidade empresarial das MPME, a gestão das MPME deve incentivar o aumento das capacidades de gestão, da literacia financeira e das variáveis de atenuação dos riscos. Quanto maior for a capacidade de gestão, mais adequada será a estratégia competitiva formulada e aplicada nas MPME. Os gerentes são os principais atores da empresa, portanto, quanto melhor a capacidade de gestão de um gerente, o desempenho da empresa aumentará.

Keywords: capacidades gerenciais, alfabetização financeira, mitigação de riscos, sustentabilidade empresarial, MPMEs, modelagem de equações estruturais, Indonésia.

1 INTRODUCTION

According to Alafifi et al. (2019) Micro, Small and Medium Enterprises (MSMEs) have long been understood to have a significant role in the economic development of a country. Specifically, the existence of MSMEs is believed to be able to contribute to poverty alleviation efforts through job creation. According to Hirawati et al. (2021) the government provides capital credit for MSMEs that are export-oriented or are involved in activities that support exports, with a lower interest rate compared to. Therefore,
strategic efforts are needed to improve the performance and sustainability of MSMEs. One of the ways that can be done is to enrich the knowledge of MSMEs players regarding financial knowledge so that their management and accountability can be better accounted for as befits a large company. Much literature has confirmed that a company's ability to recognize and access financial resources will have an impact on the company's growth rate (Asbari et al., 2020).

MSMEs are businesses that are owned or managed by individuals, households or small businesses. The MSME classification is grouped based on annual turnover, assets, and number of employees. According to Hirawati et al. (2021) The Micro, Small and Medium Enterprises (MSMEs) sector has a significant impact, because this industry occupies an important position in a country's economy. The low defense and flexibility of MSMEs in dealing with a pandemic occurs because of low literacy regarding digitalization such as difficulty accessing technology and a lack of knowledge about survival strategies in doing business. MSMEs are expected to be able to adapt well to current business developments because they can improve the sustainability of the business. Small businesses have the ability to survive because they are managed directly by their owners so they have flexibility with changing environmental conditions and the speed of determination. There are several factors that support the sustainability of a business, including managerial ability, risk mitigation, and financial literacy. According to Babajide et al. (2021) MSMEs need to strengthen capacity through good financial management and expand access to MSME financing. However, there are obstacles if the financial information held is not transparent and well organized. This is due to the lack of knowledge of entrepreneurs about the importance of recording and recording every transaction in their business (Desky et al. 2020).

According to Haudi et al. (2020); Hutahayan et al. (2021); Hirawati et al. (2021) in his research discussing business performance and sustainability, the result is that financial literacy has a positive impact on business performance and sustainability. The results look different in other studies carried out according to Setyoko et al. (2022); Babajide et al. (2021) shows that financial literacy has no impact on the development of MSMEs. Meanwhile, the research by Hutahayan et al. (2021); Hirawati et al. (2021) which discusses financial literacy shows results, which have a positive and significant impact on the performance and sustainability of MSMEs. In contrast to According to Alafifi et al. (2019) results, financial literacy has a significant negative impact on SME
performance. From several studies relevant to this research, the differences in results in previous research

2 LITERATURE REVIEW
2.1 FINANCIAL LITERACY

Financial literacy is awareness and knowledge of financial concepts and risks, motivation and beliefs, and skills. According to Murhadi et al. (2023) aims to apply awareness and knowledge in planning to make efficient financial steps and improve the financial well-being of individuals and the wider community. And in the end they can contribute to the economy. Financial literacy can be measured using a number of indicators. According to Murhadi et al. (2023) financial literacy parameters are divided into 4, namely: a. General Knowledge of Financial Matters Financial knowledge includes personal understanding when managing their income and expenses as well as understanding basic financial concepts. Financial concepts include opportunity costs, the effect of inflation, compound interest, the time value of money, the liquidity of an asset, and simple interest rate calculations. b. Savings and Loans, Fundraising means raising funds or seeking funds (money) from the general public. The funds collected are bank deposits. Forms of savings include current accounts, savings, and time deposits. The purpose of savings in the form of payment deposits is to make it easier to withdraw money, especially for those who are involved in the business world. The purpose of saving deposits is to get a higher interest rate on a current account, and the purpose of saving in time deposits is to obtain a higher interest rate. c. Insurance, Insurance is coverage given by the insurer (insurance company) to the insured (customer) against the risk of loss specified in the insurance contract in the event of loss, fire, accident or loss of life (passed away) and others with the insured (customer) paying the premium for the policy contract every month. d. Investment Investment is a specific amount of money that is budgeted to achieve more results in the future. Where fund owners can invest in three main categories, namely financial assets, real assets, and other assets such as paintings and stamps. Financial assets are securities that show ownership of real assets and debt of real assets, such as stocks and bonds. Real assets themselves are assets that are used and physically tangible such as houses, cars, land and buildings. According to Utomo et al. (2023); Murhadi et al. (2023) financial literacy includes knowledge of financial concepts, the ability to understand communication about financial concepts, skills in managing
personal/company finances and the ability to make financial decisions in certain situations. Lusardi (2012) states that financial literacy consists of a number of financial abilities and knowledge possessed by a person to be able to manage or use a certain amount of money to improve his standard of living. Financial literacy is closely related to behavior, habits and the influence of external factors.

2.2 MANAGERIAL ABILITY

Managerial ability is a series of work activities or activities carried out by managers including taking steps to prepare, organize, apply and supervise and have managerial skills including intellectual strength, emotional skills, physical quality, spiritual energy, and applied technological skills to achieve predetermined targets. According to Murhadi et al. (2023) stated, if a manager or leader has technical skills, human skills and conceptual skills. Thus, effective managerial skills will manifest themselves. According to Murhadi et al. (2023) Technical skills relate to their ability to implement specialized skills or special knowledge. Then, human skills, namely being able to work together, understand and encourage others to do positive things. Then, conceptual skills are mental readiness for the analysis and diagnosis of complex situations. a. Technical skills, Demonstrated from his expertise to compile business plans, compile financial reports, carry out bookkeeping, financial analysis, use distribution channels, determine selling prices, use computer and internet equipment, and others. b. Skills in communicating with other people, this can be seen in the ability to explore other people's ideas in preparing business plans, support people around and empower them, motivate people around well, be able to delegate other people to their duties and obligations, convey all useful and relevant information, encourage others to be ambitious in positive terms and also give rewards. c. Conceptual skills, seen from his expertise in seeing the entire organization, collecting, analyzing and interpreting information obtained from various sources. As well as understanding the relationship between stakeholders.

2.3 RISK MITIGATION

According to Murhadi et al. (2023) describing risk mitigation, there are four indices whose purpose is to improve operations in the supply chain, including: a. To ensure the efficiency of material sources throughout the supply chain, this can be done by coordinating and collaborating with upstream partners. b. To influence demand
profitably, companies can coordinate and cooperate with the following partners. c. In order to make it easier to meet demand and supply, companies can do this by modifying products or designs. d. To be able to access various types of information in supply chain partners, companies must improve their coordination and collaboration. The sustainability of a business is driven by several aspects. According to Utomo et al. (2023); Murhadi et al. (2023) while these aspects are a strong driver for the survival of a business, namely: an organized business plan, regular updating of business activities, competitor analysis, easy entry into new businesses, the ability to calculate or calculate risks or a survival strategy is the ability to use methods to get out of existing problems, the strategy implementation is the strength of the business component to manage assets. The survival strategy is also a form prepared by humans to be able to deal with the problems that are happening. The survival strategy in this study is a strategy used by a person to maintain the existence and existence of his business. According to Utomo et al. (2023); Murhadi et al. (2023) explains that the owner/manager is very tough (powerful) to overcome obstacles in realizing the success of his business strategy. Strategy in small companies comes from human capital resources, namely: the ability and competence of managers or owners. According to Meressa (2023) found that human capital or managerial ability of the owner is associated with strategy that has a positive effect on company performance. According to Official et al. (2022); Utomo et al. (2023) found managerial ability to have a positive effect on the productivity of organizational resources. Robbins, and Official et al. (2022) stated that if a manager wants to be successful in his business as seen from his performance, then a manager must have and carry out, (1) management functions, (2) management roles, and (3) management expertise. According to; Murhadi et al. (2023) states that managerial ability in combination with various company-specific resources together will produce profits for companies involved in competition. According to Meressa (2023); Murhadi et al. (2023) found that entrepreneur human capital has a positive effect on business performance. According to Meressa (2023)) found that ability has a positive effect on organizational performance.

3 METHOD

This research uses quantitative research methods. Quantitative research methods are used because in this study, the relationship between the variables to be studied has a causal relationship, to examine certain populations and samples, and aims to test the
established hypotheses. The measurement scale in this study uses a Likert scale of 1 to 5 with categories namely strongly disagree, disagree, agree, and strongly agree. With data collection techniques using online questionnaires. The analysis technique uses SEM (Structural Equation Modeling) with SmartPLS 3.0 software tools. Respondents in this study were 876 MSME owners who were determined by simple random sampling. Data analysis techniques use variable calculations based on variable operational definitions. After that, carry out validity tests, reliability tests, descriptive statistical analysis, and inferential statistical analysis with partial least squares (PLS), namely Outer Model Evaluation (convergent validity and composite reliability), Inner Model evaluation (R-square analysis, prediction relevance test, causality test with path coefficient estimation). Test the validity of the correlation value above 0.70 indicators are considered valid. However, at the research development stage, a loading scale of 0.50 to 0.60 is still acceptable. The reliability test in this study used internal consistency reliability measurement techniques by calculating two things, namely composite reliability and Cronbach alpha. If the value of composite reliability and Cronbach alpha is above 0.70 the construct is declared reliable.

The research hypothesis is

H1: Managerial Capabilities have a positive and significant effect on MSMEs Business Sustainability

H2: Financial Literacy has a positive and significant effect on MSMEs Business Sustainability

H3: Risk Mitigation has a positive and significant effect on MSMEs Business Sustainability
4 RESULT AND DISCUSSION

4.1 CONVERGENT VALIDITY AND COMPOSITE RELIABILITY

If all outer loading is above 0.50, then the variables Leader Member Exchange, job satisfaction, and employee performance have good convergent validity. If the composite reliability value for all variables is greater than 0.70, then the variable model meets composite reliability.
4.2 RELIABILITY TEST RESULTS

Reliability test can be measured by looking at the value of composite reliability and cronbach's alpha. This research is testing reliability using Cronbach's alpha value because it is considered better in providing estimates consistency of an indicator.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Cronbach's Alpha</th>
<th>rho_A</th>
<th>Composite Reliability</th>
<th>Average Extracted (AVE)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Managerial capabilities</td>
<td>0.823</td>
<td>0.898</td>
<td>0.832</td>
<td>0.623</td>
</tr>
<tr>
<td>Financial Literacy</td>
<td>0.809</td>
<td>0.843</td>
<td>0.865</td>
<td>0.623</td>
</tr>
<tr>
<td>Risk Mitigation</td>
<td>0.897</td>
<td>0.865</td>
<td>0.876</td>
<td>0.645</td>
</tr>
<tr>
<td>Business Sustainability</td>
<td>0.887</td>
<td>0.812</td>
<td>0.843</td>
<td>0.624</td>
</tr>
</tbody>
</table>

Table 1. shows the results of the reliability test with the Cronbach's alpha value for each variable, which can be said to be valid or reliable. Variable to be valid or reliable if the Cronbach's alpha value is ≥ 0.6.

4.3 HYPOTHESIS TESTING

Hypothesis testing in this study was carried out by looking at the T-Statistics value and the P-Values value. The research hypothesis can be declared accepted if the P-Values <0.05.
4.4 THE EFFECT OF MANAGERIAL ABILITY ON BUSINESS SUSTAINABILITY

Based on the results of the study it can be concluded that partially Managerial Ability influences Business Sustainability. This is consistent with the results of significance value of 0.000 < 0.05, which means that Ho is accepted as the Managerial Capability variable does not significantly influence MSME Business Sustainability. These results are in line with research conducted by Marfuin & Robin (2021) which showed that there was no significant effect between Managerial Ability and Business Sustainability. According to him, digital transformation in companies can be turned into a competitive advantage and able to increase company capabilities, for example by utilizing digitalization of business applications that strengthen business operations for the better.

According to Iramani et al. (2018) quantified a measure of managerial ability which is something that is still difficult to measure from a financial accounting perspective. Managers are the main actors of the company, thus the better the managerial ability of a manager, the company's performance will increase. According to Jati et al. (2021); Kurniasih et al. (2020) uses a measure of managerial ability, based on the efficiency of managers in generating profits. They expect managers to be better able to understand technology and industry trends, to reliably predict product demand, to be able to make higher investments, and to be able to manage their employees more efficiently. In short, more capable managers can generate higher profits with a certain level of resources or conversely minimize the resources used to obtain a certain level of income.

The final results of their research state that the measure of managerial ability is closely related to stock price reactions. Changing a more capable CEO is invariably associated with further improvement of the company. They concluded that the existence of a potential measure of managerial ability will have a negative impact on the relationship between equity financing and abnormal returns in the future. In particular, managers with better abilities appear to make more effective use of the proceeds from issuing equity. Demerjian et al. (2013) investigated managerial ability using the MA-Score, as a measure of managerial ability developed by Irikefe et al. (2021); Jati et al. (2021); Kurniasih et al.
(2020) found that managers have influence on company choices such as acquisitions or spending on research and development, and Kurniasih et al. (2020) found that earnings quality appears to vary with CEO reputation. Using four alternative measures of earnings quality from restatements, earnings persistence, errors in granting bad loans, and modified accruals quality, according to; Irikefe et al. (2021) found that managers who are better able to report higher quality earnings and describe higher firm value. This research does not consider the four measurement alternatives used by Francis et al. (2008) because it can create multidimensional conditions that can have an impact on the explanation of sustainable earnings which focus on managing the company's internal resources to maintain its profits in the future. Thus this study only looks at only one side, namely sustainable profit. According to Iramani et al. (2018); Kurniasih et al. (2020) (2013) found a positive relationship between managerial ability and earnings quality. Managers who have a higher quality associated with higher earnings quality. This finding is consistent with the premise that more capable managers will have a better ability to make accrual forecasts, and it suggests that firms can increase their firm value by employing managers with higher abilities.

4.5 EFFECT OF FINANCIAL LITERACY ON BUSINESS SUSTAINABILITY

Based on the results of the study it can be concluded that partially Financial Literacy influences the Business Sustainability. This is consistent with the results of significance value of 0.000 < 0.05 which means that Ho is accepted as the Financial Literacy variable does not have a significant effect on MSMEs Business Sustainability. These results are in line with research conducted by Kusumadewi (2017), which produce Financial Literacy has no effect on the Business Sustainability. He concluded that the financial knowledge possessed by MSMEs actors is not a determining factor for performance, because every MSMEs actor must of course be able to manage their finances. This means that there are other factors that affect the performance of SMEs. According to Iramani et al. (2018); Ferli (2023) found that book keeping literacy affects survival strategies because the ability of MSMEs to repay loans/debt followed by budgeting literacy of MSMEs actors is unable to increase their business activities. These results also confirm previous research conducted by Irikefe et al. (2021); Jati et al. (2021); Kurniasih et al. (2020) In general, their research stated that if entrepreneurs in the MSMEs sector (in this study creative industry SMEs have adequate financial literacy skills, then
the business and financial decisions made will lead to improved development over time, increasing the ability of businesses to survive amidst crises and will ultimately make the business have long-term sustainability. However, the results of this study appear to contradict the results of research by Irikefe et al. (2021); Kurniasih et al. (2020) who found evidence that the owner's financial literacy at MSMEs. The results showed that the higher the level of financial literacy, the higher the performance of MSMEs. Thus, the level of financial literacy is very important for the development of a business, because a good business needs to be supported by good financial management as well. According to Jati et al. (2021); Kurniasih et al. (2020)) financial literacy is about the extent to which a person understands financial concepts and proper financial management so that he can make decisions both short term and long term planning according to the dynamics of needs and economic conditions. According to Lusardi, annamaria; Mitchell (2008) financial literacy is a person's skills to apply the knowledge and expertise they have in order to achieve better financial behavior, so that knowledge, skills and behavior become an interrelated unit in the concept of financial literacy.

4.6 EFFECT OF RISK MITIGATION ON BUSINESS SUSTAINABILITY

Based on the research results, it can be concluded that partially Risk Mitigation has an effect on Business Sustainability. This is in accordance with the results of significance value of 0.000 <0.05, which means that Ho is rejected. The Risk Mitigation variable has a significant effect on the Batik entrepreneur's survival strategy in the Setono Batik Wholesale Market. There is no previous research that uses risk mitigation for survival strategies. Of course this is a new discovery in research. According to Iramani et al. (2018); Ferli (2023); Kurniasih et al. (2020) stated that the ETDK (Effectiveness to Difficulty Ratio) value is the value that determines the rating of the mitigation actions to be taken taking into account the level of difficulty based on resources, cost effective and efficient. Therefore it can be concluded that the variables of managerial ability, financial literacy, and risk mitigation have an effect simultaneously or simultaneously on the survival strategy variable as the dependent variable. This is because among the independent variables there are variables that effect on the dependent variable, namely the Risk Mitigation variable. The results of this study are in accordance with the research of Irikefe et al. (2021); Jati et al. (2021); Kurniasih et al. (2020) which states that ability
managerial, financial knowledge simultaneously influences MSMEs Survival Strategy. Risk factors in each operational system are understood as a form of loss resulting in business failure from the consequences of the implemented strategy. In a dynamic and competitive business environment, the effect of reduced productivity on SMEs is calculated as difficult to predict, this emphasizes the quality of each type of small and medium enterprises to be able to overcome risks in their respective management strategies. The SMEs they have developed have kept up with the times, but one thing that needs to be noted is that trends in modern business mostly bring the influence of modern risks as well. In fact, small and medium enterprises in Indonesia cannot be compared with SMEs in developed countries.

This study shows that managerial ability has a positive effect on organizational ability. That is, the higher the managerial ability, the higher the organizational ability in small industries. Empirically, this study corroborates the conceptual research conducted by Irikefe et al. (2021); Jati et al. (2021); Kurniasih et al. (2020) that conceptual competence, establishing relationships, and organizing from entrepreneurs have a positive effect on the organizational abilities of SMEs and develop research conducted by Iramani et al. (2018); Ferli (2023) that managerial ability has a positive and significant effect on the productivity of organizational resources. The effect of managerial ability on competitive strategy. This study shows that managerial ability has a positive effect on competitive strategy. That is, the higher the managerial ability, the more appropriate the competitive strategy that is formulated and implemented in SMEs. Empirically, this study develops research conducted by Kurniasih et al. (2020) research indicates that the high threat of substitute products can affect the choice of cost leadership strategy, and managers significantly choose a cost leadership strategy compared to managers. When the power of buyers is high, managers in Japan are not as brave as managers in Japan in entering the market by using a differentiation strategy and a focus strategy and strengthen the research conducted by Irikefe et al. (2021) that resources and strategies can simultaneously explain company performance. Partially, the human capital or managerial ability of the owner is associated with the quality/customer service strategy and the innovation strategy affect the company's performance improvement. The effect of managerial ability on company performance. This study shows that managerial ability has a positive effect on company performance.
5 CONCLUSION

From the analysis that has been done, it can be concluded as follows. Managerial ability partially has a significant effect on the Survival Strategy for MSMEs actors. Financial Literacy partially has a significant effect on the Survival Strategy for MSMEs players. Partially, Risk Mitigation has a significant effect on the Survival Strategy of MSMEs actors. Managerial Capabilities, Financial Literacy, Risk Mitigation have a simultaneous effect on the Survival Strategy of MSMEs actors. The object of this research only includes MSMEs actors does not include other MSMEs such as food and so on. If further research is carried out, the results may differ. For future researchers, it is hoped that they can add relevant references to support the theories used for stronger research results. Research on financial literacy for companies (MSMEs and large businesses) is still relatively rare in Indonesia. Most studies look at the relationship or influence of individual or family financial literacy. Research on the creative industry itself is still very limited. The existence of a creative economy agency indicates that this industry has an important role in the Indonesian economy. In the future, it is hoped that there will be a lot of research with a more applicable perspective for creative business development in Indonesia. Improvements to this research can be made, among others, by expanding the sample coverage to be wider, modifying the model to make it more complex, or it can also be by expanding the range of measuring indicators. Risk factors in any operational system are understood as a form of loss resulting in business failure from the consequences of the strategy applied. In a dynamic and competitive business environment, the effect of reduced productivity on MSMEs is calculated as difficult to predict, this emphasizes the quality of each type of small and medium enterprises to be able to overcome risks in their respective management strategies. The MSMEs they have developed have kept up with the times, but one thing that needs to be noted is that trends in modern business mostly bring the influence of modern risks as well. In fact, small and medium enterprises in Indonesia cannot be compared with SMEs in developed countries.
REFERENCES


