

Determinants of Financial Literacy and Digital Literacy on Financial Performance in Driving Post-Pandemic Economic Recovery

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Micro, Small, and Medium Enterprises (East Java, Indonesia) are one of the businesses that drive developing nations' economies with various challenges, particularly in finance and digitalization. The impact of financial literacy and the use of digitalization can affect the recording and reporting of company performance. This is quantitative research, and the population in this research is SMEs in East Java, with 401 SMEs from various businesses for the sample used. This research uses the primary data method of SMEs in East Java with the Structural Equation Model as a data analysis tool. The results showed a significant relationship between financial literacy and financial performance, and digital literacy was based on financial performance. However, digital literacy could not moderate financial literacy with the financial performance of East Java SMEs. Much of the untapped potential in this study was adopted from financial governance and digitalization. It is hoped that the subsequent study will examine other phenomena on the variables used in the post-pandemic.

Keywords: Financial literacy, Digital literacy, Financial performance, SMEs, Pandemic

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1. Introduction

Indonesia is a strategically positioned country with enormous natural resources. Indonesia is also rich in culture and customs, which drives SMEs (Micro, Small, and Medium Enterprises) to thrive, particularly in East Java. In 2019, the Cooperatives and SMEs Office (Small and Medium Enterprises) documented 3,447,520 SMEs dispersed over East Java. SMEs played a significant role in contributing to the economy in East Java until 2020 by 57.25%. The rate dropped from 57.26 percent in 2019 but remains high compared to the year before the pandemic, which was 56.93 percent in 2018. SMEs are essential in increasing GDP (Gross Domestic Product) in the economic sector. SMEs provide considerable benefits in developing nations such as Indonesia, particularly East Java. Therefore, SMEs are believed to be able to encourage economic growth in East Java.

The amount of SMEs' contribution to the economy in East Java is seen in the processing industry sector of Rp 379.88 trillion (28.86%), the trade sector of Rp 294.98 trillion (22.41%), the agricultural, forestry, and fisheries sectors amounting to Rp 249.78 trillion (18.97%), the construction sector amounting to Rp 141.45 trillion (10.75%), the accommodation sector Rp 79.03 trillion (6%), and other sectors 13.01% (Diskop UKM and BPS, 2019). Furthermore, the usage of digitization for SMEs has increased significantly during the pandemic year since many people are eager to utilize the internet as a transaction medium for both sales and marketing.

There is a significant increase in internet use by SMEs. However, the study results revealed that 89 percent of SMEs do not utilize the internet. This figure was lowered to 43%. While the percentage of internet users rose from 11% to 56% (Diskop and BPS, 2020). This indicates that many SMEs have already shifted from traditional to digitalization-based operations during this pandemic. Yet, SMEs' most prominent issues are capital-related (37%) and marketing-related (35%). The government has facilitated marketing production, desecration, and human resources improvement from the institutional side. In addition, the study revealed that SMEs who got mentoring remained at 31% (Diskop & BPS, 2020), and 4.34% of facilities have access to raw materials, 9.92% to marketing materials, 9.55% to capital, 1.98% to distribution and transportation, 5.21% to business licenses, and other facilities have access to training and other resources (15%).

Global economic activity halted due to indicators of the COVID-19 pandemic, which originated in China before spreading to all developed and developing countries, including Indonesia. The response impacted all macroeconomic and microeconomic indicators, which changed people's financial behavior significantly, slowing the movement of the financial cycle. The Covid-19 epidemic has shaken Indonesia's financial stability, resulting in financial problems for several economic sectors in the form of significant public financial demands, which has caused a drop in banking sector deposits. In addition, the banking industry has seen a decrease in capitalization due to the high loans of creditors who have not made credit payments, which has led to a decline in banking activity.

Due to the loss in financial literacy during the Covid-19 Pandemic, this trend brought financial

cycle pressures at a period when it was exceedingly difficult to boost economic growth. This is because there are still some financial activities that do not use banking facilities in every financial transaction carried out. The process of financial interaction through the pressure of the Covid-19 pandemic has resulted in economic uncertainty. Therefore, financial literacy becomes the basis for measuring economic growth in Indonesia, which aims to gauge public sensitivity to the effectiveness of financial literacy and digitalization after the Covid 19 Pandemic to increase economic growth in Indonesia.

The pandemic period made the opportunity for SMEs a top priority in increasing sales. This convinces SMEs in the Post-Pandemic to continue to run their business, see the results of the Desktop and BPS survey of 55.99%, and the supremely confident by 40.28%, while the unconvinced ones are 3.73%. This means that SMEs believe that this pandemic does not dampen their business intentions to continue to run their operations, arguing that 45.8% of SMEs are the primary job, whereas 4.23% of SMEs in East Java do not have the impact of Covid-19, and another 50.03% uphold their cultural heritage to keep rising and believe that the windfall has been arranged. In general, SMEs face challenges such as a lack of cash and credit, a shortage of trained workers, a lack of raw materials, weak infrastructure, a paucity of labor with the requisite managerial skills, and the new usage of contained, emergent, and ever-changing technology (Oláh et al., 2019; Wu & Si, 2018).

According to Mutamimah, Tholib, & Robiyanto (2021), since SMEs account for 99.9% of all business units in Indonesia, while just 0.01 percent of all enterprises are large, SMEs play a critical role in employment and economic growth. SMEs contribute to the literature and play an essential part in a country's economic development (Agyei, 2018). The industrial environment's stability depends on a well-developed SMEs sector, contributing to steady and stable economic growth. Regardless of how important SMEs are to economic development, research reveals that their performance is worse in developing nations, preventing them from meeting their development objectives (Omiunu, 2019; Ye & Kulathunga, 2019). Therefore, there is an urgent need to look at variables and methods to support SMEs operating more effectively, especially in emerging markets. (Kulathunga, Sharma, & Weerathunga, 2020).

Knowledge resources have become an essential part for SMEs in improving their performance. In order to gain a competitive advantage in their industry, it is crucial to emphasize the importance of incorporating the personal knowledge of organizations and businesses into products and services. Thus, it is difficult for SMEs to improve their performance based on the knowledge that can affect their performance. One of the efforts made by investigating human resources in financial and digital literacy and their relevance in encouraging the economy of SMEs during the pandemic.

The emergence of financial literacy makes it one of the critical sources of knowledge that can increase the capacity, skills, and expertise of individuals/companies to use technology effectively. In addition, financial literacy makes a form of support between individuals and companies (Kulathunga et al., 2020). Therefore, integrating financial literacy with financial performance is vital to improving the performance of its organization. On the other hand, good financial literacy

can manage and make the right decisions so that SMEs with debts can pay loans promptly (Fatoki, 2014). Besides, financial literacy can make it easier to choose a strategic funding source (Okello, Ntayi, Munene, & Malinga, 2017). The foundation for enhancing SMEs' financial performance is their understanding of financial literacy in managing their businesses.

Similarly, the rise of digital literacy could revolutionize the corporate environment globally (Mabula & Ping, 2018). Although this era of digitalization can strengthen the business environment, it can create risks and challenges for the company's survival. Therefore, business organizations need more specific knowledge to manage volatile market conditions with digitalization. Thus, digital literacy can be determined as an essential source of knowledge, which can help in obtaining the benefits that arise in this era of digitalization. Therefore, integrating financial and digital literacy is crucial to improving the organization's financial performance. Additionally, there aren't many studies that focus on knowledge like financial literacy and digital literacy. Thus, this study contains extensive research on how these topics affect financial performance to support SMEs' economic recovery during the pandemic Java in the East.

2. Theoretical Framework and Hypothesis Development

2.1 Financial literacy

According to Eniola and Entebang (2015), financial literacy is knowledge, skills, experience, and reputation are examples of internal resources that become intangible assets. Financial literacy is the knowledge of financial management to achieve prosperity (Lusardi & Mitchell, 2014). Financial literacy is defined as the ability to make sound financial decisions based on knowledge and understanding of financial concepts (Foster, Sukono, & Johansyah, 2021). Furthermore, financial literacy can assist individuals and groups in improving their financial well-being. Financial literacy is also linked to a person's capacity to handle finances (Lusardi & Mitchell, 2014; Moon, Ohk, Choi, 2014). Foster et al. (2021) defines financial literacy as the ability to understand financial concepts so that it can be applied in making financial decisions, the ability to manage personal finances, the ability to make informed decisions, and carry out effective financial planning for future financial needs. According to Carpena and Zia, 2011, its dimensions consist of knowledge and context of financial literacy, including knowledge, education, and finance information. The source then consists of banking, deposits, credit, insurance, and taxes. Financial literacy indicative (OECD, 2017), namely:

1. Financial knowledge, knowledge of the time value of money, loan interest, principles of calculating bank interest, compound interest, risk and profit, inflation, and diversification can be used to assess the level of financial knowledge of SME actors.
2. Financial behavior, the pattern of SME actors in responding to finances can be measured by consideration in deciding on purchases, timeliness of paying bills, management, and future financial arrangements, money-saving activities, decisions in choosing financial products, and loans made in meeting needs.

3. Financial attitude (financial attitude); SME actors' attitude is measured using orientation toward financial knowledge, financial behavior, and attitude

2.2 Digital literacy

Digital literacy, according to List (2019), in the broad context, is a skill that allows individuals to live and contribute to a digital society. Digital literacy is the capacity to use technology and information successfully and efficiently with digital devices in various settings, including academics, the workplace, and everyday life (Riel & Christian, 2016). Digital literacy acknowledges that existing forms of literacy are lacking in their preparation to equip users with the skills to engage with digital technology and bring new affordability to users (Leaning, 2019). Wheeler (2012), in his paper entitled *Digital Literacies for Engagement in Emerging Online Cultures*, identified nine crucial elements in the world of digital literacy, namely:

- a. Social networking is related to the growing variety of social networking applications that offer a variety of different features. Being selective and cautious when using social networking site services is important. Knowledge and mapping of the use of social networking sites based on their functions and the ability to use social networks with various features offered are indispensable. For that, it is necessary to know and master the fundamental functions of each feature. On the other hand, the ethics of utilizing social networking sites also did not go unnoticed. Digital literacy provides a way for how well social networking should be.
- b. Transliteracy, or the capacity to use various platforms, including social media, discussion forums, smartphones, and numerous online services, to generate content, collect, share, and interact.
- c. Maintaining privacy, or understanding all types of cybercrime, such as online theft via credit cards (carding), identifying the characteristics of bogus sites (phishing), fraud via email, and so on, are necessary for safeguarding online privacy. An online identity is only required if you wish to avoid something unpleasant.
- d. Managing digital identity is an aspect that is related to using the correct identity in various social networks and other platforms.
- e. Creating content is related to skills on how to create content on various online applications and platforms such as in PowToon, Prezi, blogs, forums, and wikis. It also includes the ability to use a variety of e-learning platforms.
- f. Organizing and sharing content is the process of organizing and sharing information content to make it more widely available. The usage of social bookmarking sites, for example, aids in disseminating information that many people on the internet can access.

- g. Filtering and selecting content are the ability to find, filter, and choose information appropriately based on one's needs, such as using numerous online search engines.
- h. Self-broadcasting attempts to share fascinating ideas or personal thoughts, as well as multimedia content, using blogs, forums, or wikis, for example. This is a type of online social community engagement.

2.3 Financial Performance

According to Melwani (2019), organizational performance is a critical aspect of management research and a controversial indication of organizational performance. Financial performance is defined as the company's operational and investment operations by increasing the role of financial intermediaries, such as angel investors, venture capitalists, and creditors, who can help small business growth and product market innovation (Nurjannah, et al., 2022). According to Malesev and Cherry (2021), financial performance can also be defined as the outcome of various operations using available funds. The financial statement or ratio analysis results can be used to determine financial performance. According to Pollak and Markovic (2021), financial performance analysis needs some concepts or features that can characterize the organization's financial data. Financial performance refers to a company's accomplishments over some time in terms of describing its level of excellence. Additionally, Peter, Kraft and Lindeque (2020) state that this can serve as a foundation for evaluating the state of financial performance based on financial statement analysis. Four indicators are used to measure financial performance (Rapih, 2015):

1. Profit growth, namely the growth of profits, is calculated in nominal money (Rupiah), which is increasing.
2. The growth in the number of customers, namely the number of customers/consumers using products, is increasing.
3. The growth in the number of sales, namely the number of product sales in quantity, is increasing.
4. The growth of the number of assets, namely the number of company assets both in the form of fixed and non-fixed assets, is increasing.

This research was conducted in the East Java region because it is one of the most significant contributors to the economy. In supporting and improving SMEs' performance, the East Java regional government collaborates in the digitalization field to make it easier for SME players to run a business. However, regarding the quality of human resources in East Java, it is not optimal. There are still many SME actors who do not know good financial management. Inadequate facilities and infrastructure continue to exist, and business actors still do not understand or use information technology, which can negatively impact the financial performance of SMEs and hinder the post-pandemic economic recovery. The research framework of thought can be seen in Figure 1.

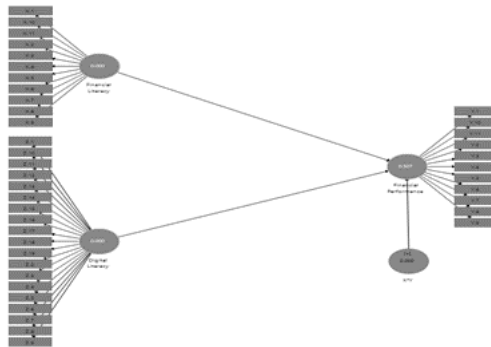


Figure 1. Structural Equation Model (SEM)

Effect of Financial Literacy on Financial Performance

Financial literacy is a source of knowledge that determines the sustainability of an SME's performance (Ye & Kulathunga, 2019). Thus, financial literacy plays a vital role in creating SMEs' value, leading to their performance (Lawless & Mccann, 2011). Financial literacy adds to an organization's knowledge base, allowing it to adapt to changes in the business environment and capitalize on opportunities that arise as a result of those changes. As a result, businesses must recognize the value of financial literacy and their strategic role in enhancing the company's knowledge capacity.

In the current conditions of global competition, SMEs are expected to provide more added value to the goods/services offered in better quality or efficiently on goods/services that are more appropriate than competitors. This is difficult for SMEs due to the lack of management capabilities and limited working capital management. Despite these limitations, SMEs tend to have resilience (stable financial performance) to business and economic climate changes. With proper financial literacy, they can use their financial capabilities to make various appropriate decisions regarding the goals and sustainability of their business.

Financial literacy has been linked to improved firm success in numerous research. Finance-savvy companies have a better understanding of the financial side of strategic concerns. As a result, their performance is improved. Wise (2013) shows that financial literacy is essential for the survival of SMEs in developed and developing countries. Low financial literacy leads to poor financial management practices and frequent financial mistakes (Lusardi & Mitchell, 2014). Huston (2010) shows that financial literacy is needed to cope with rapid economic change. Similarly, Hailwood (2017) concluded that people with high financial understanding are more likely to invest in complex assets and to do so successfully. Davidson, Xie and Xu (2004) also found a link between financial literacy and corporate performance. Furthermore, financial literacy is seen as a critical aspect of generating wealth and the company's performance (Behrman, Mitchell, Soo & Bravo, 2012). As a result, financial literacy has emerged as one of the most critical determinants of corporate decision-making and long-term financial planning.

H1: Financial literacy influences financial performance

The Effect of Digital Literacy on Financial Performance

Digital literacy is built on the concept of the digital divide to demonstrate the ability not only to access digital infrastructure but also to benefit its media (Jaeger, Bertot, Thompson, Katz, & DeCoster, 2012). While internet connectivity is essential to increase competition for micro, small, and medium-sized enterprises, their level of connectivity remains lower than when compared to larger organizations (Ollerenshaw, Corbett, & Thompson, 2021). SMEs often lack the skills and expertise to improve digital technologies, apply more complex technologies, and have difficulty identifying the value of new technologies.

The low degree of digital proficiency in SMEs is a result of a poor appreciation of technology's advantages. Governments around the world are being urged to take steps to better support and promote the adoption of technology by SMEs (Gono, Harindranath, & Özcan, 2016).

In SMEs, where digital skills influence the overall state of SMEs, digital literacy is crucial. In digital applications, there is fierce competition between many SMEs. SMEs must grow and educate themselves if they want their businesses to become digitally proficient. Without the proper digital training, it is possible that SMEs would perform below par for their company. It is not only beneficial to SMEs, but it also plays an essential role in the transition to digitization. Therefore, SMEs can compete with rivals through the adoption of digital technology. These SMEs must be competitive, particularly in digital technology, given that they contribute the most to the economy of East Java, Indonesia.

Published research suggests that digital literacy interventions and support for SMEs should be focused on trying specifically for that SME, thus facilitating information about available technologies that are best suited for industry-focused companies (Steyn, 2018). This shows the relationship of digital literacy with financial performance makes access to information and communication technology sufficient with the skills, knowledge, and ability to use digitalization. Thus, digital literacy becomes one of the important drivers in decision-making to plan its financial performance in the future.

H2: Digital literacy influences financial performance

The influence between Financial Literacy and Financial Performance moderated by Digital Literacy

For a long time, it was said that the decision-makers in this small business were the owners themselves (Yu, 2001). According to new research, other elements, such as IT providers and consultants, can still play a role in ICT adoption (Gono et al., 2016). Mavimbela and Dube (2016) found that owners with a poor degree of proficiency (low digital literacy ability) have lower

adoption rates. It's also listed as a roadblock above, so it'll be fascinating to see who makes the call (Steyn, 2018). Financial literacy and digital literacy are important factors in determining financial performance and boosting the economy of SMEs.

H3: Digital literacy influences the relationship between financial literacy and financial performance

3. Research methods

The data was collected through the SMEs survey in East Java, Indonesia. This survey is aimed at SME owners/managers in East Java. Data collection is carried out during the researcher's visit to the company location, and the researcher supervises the process of filling out a questionnaire for rapid response. The introduction was accompanied by a cover letter persuading participants that the information was needed exclusively for academic purposes, that the results would be treated confidentially, and that researchers would be willing to use the knowledge for them and the larger community. Due to restricting constraints such as company proximity, time, resources, and respondents' readiness, the company chosen for this study is based on convenient sampling. The population of this study is 4.174.210 SMEs in the East Java region, and the sample in this study is SME actors throughout the East Java region. The researchers chose the district because there is a lot of potential for SMEs. The sampling technique used in this study is probability sampling with specific criteria: SMEs that have been running for at least two years, SMEs managers who do bookkeeping and have a relationship with banks, such as in terms of loans.

According to Sugiyono (2018), Yamane, Isaac, and Michael's formula is used to determine the total samples as described as follows :

$$n = \frac{N}{N\epsilon^2 + 1} \quad \longrightarrow \quad n = \frac{4.174.210}{4.174.210(0,05)^2 + 1} = 401 \text{ SMEs}$$

The calculation findings from the 4,174,210 SME populations in East Java, Indonesia, indicate that 401 SMEs will be employed as samples in this study. Thus, it can be said that 401 SME respondents from East Java, Indonesia, were used in this study.

The research is part of a more extensive survey aiming to capture important financial and digital literacy components. Experts analyze survey questionnaires after they have been used in pilot studies for instrument modification. Cronbach's alpha test is used to ensure consistency and quality. The Partial Least Square-based Structural Equation Model (SEM) is used to analyze data.

Table 1

Variable Operational Definition

| Variable Operational Definition | Indicators | Scale |
|--|-------------------|--------------|
| Financial Performance (Y) | 1. Sales growth | Ordinal |

| | | |
|---|--|---------|
| (Rapih, 2015) | 2. Capital growth 3. Marketing growth 4. Profit growth | |
| Financial Literacy (X1) (Atkinson & Messy, 2012) | 1. General Knowledge of Finance 2. Financial Behavior 3. Financial Attitude | Ordinal |
| Digital Literacy (X2) (Wheeler, 2012) | 1. Social Networking 2. Transliteracy 3. Maintaining Privacy 4. Managing Digital Identity 5. Creating Content 6. Organizing and Sharing Content 7. Filtering and Selecting Content 8. Self Broadcasting | Ordinal |

4. Results and discussion

At both the individual and business levels, the study collects demographic data. The survey takes information on gender and education level at the individual level and information about the type of business, location, company age, and several employees at the corporate level. The detailed results are shown in Table 2. Demographic information is used as a control variable. This control variable is linked to the independent variable and determines if there is a substantial rise in the Respondent box. Because the result with all controls is insignificant, the influence of this control variable is eliminated from further research.

Table 2

Summary of Respondents' Demographic Information

| Category | Information | Number | Percentage |
|-----------------|------------------------|--------|------------|
| Gender | Man | 216 | 53.87 |
| | Female | 185 | 46.13 |
| Education Level | Primary School | 19 | 4.74 |
| | Junior School | 95 | 23.69 |
| | High School | 198 | 49.38 |
| | Diploma/Bachelor | 89 | 22.19 |
| Business Type | Wholesale and Retail | 186 | 46.38 |
| | Agriculture | 67 | 16.71 |
| | Food and Accommodation | 65 | 16.21 |
| | Manufacturing | 38 | 9.48 |

| | | | |
|---------------------|--------------------|-----|-------|
| | Others | 45 | 11.22 |
| Location | Countryside | 163 | 40.65 |
| | Urban | 238 | 59.35 |
| Company Age | Under 1 year | 58 | 14.46 |
| | 1-5 years | 153 | 38.15 |
| | 6-10 years | 125 | 31.17 |
| | More than 10 years | 65 | 16.21 |
| Number of Employees | Micro (1-5) | 170 | 42.39 |
| | Small (6-49) | 196 | 48.88 |
| | Medium (50-99) | 35 | 8.73 |

Online questionnaires have been distributed and have collected 401 data from respondents. The data were then analyzed and processed. A summary of data on respondent demographics can be seen in table 2. Based on table 2, it can be known that 54% of SME owned are men. SME actors' average level of education is high school equivalent, with an average number of employees of 6-49 people with a company age of 6-10 years.

This study describes the characteristics of SMEs based on several categories. Results of data recapitulation showed that the businesses run by SME actors were primarily engaged in wholesale and retail with a percentage of 46.38.

4.1 Outer Model Evaluation

4.1.1 Convergent validity

Based on the output results, it can be known that this study's AVE and composite reliability values have met the required criteria, namely $AVE > 0.50$ and $composite\ reliability > 0.70$ (Table 3). Furthermore, it can be concluded that convergent validity has been fulfilled.

Table 3

| <i>Output Latent Variable Coefficient</i> | | | |
|---|---------------------------|-------------------------|------------------------------|
| | Financial Literacy | Digital Literacy | Financial Performance |
| R-squared | | | 0.960 |
| Adj. R-Squared | | | 0.959 |
| Composite Reliability | 0.922 | 0.952 | 0.925 |
| Cronbach's Alpha | 0.905 | 0.946 | 0.909 |
| Avg. Var. Extract | 0.524 | 0.514 | 0.534 |
| Full Collin VIF | 2.132 | 1.000 | 1.925 |
| Q-Squared | | | 0.507 |

4.1.2 Discriminant Validity

Values in parentheses on the table indicate the square root of the AVE, while others show the correlation between latent variables in the model. The table shows that the entire square value of AVE is greater than the correlation between the other two latent variables, both horizontally and vertically. The squared value of the AVE owned also indicates a value above 0.50. AVE is said to be good when it is worth greater than 0.50 (Ghozali, 2016). From these results in Table 4, it can be concluded that the overall latent variables in this study have good discriminant validity.

Table 4

Output Correlation Among Latent Variables

| | Financial Literacy | Digital Literacy | Financial Performance |
|-----------------------|---------------------------|-------------------------|------------------------------|
| Financial Literacy | 0.724 | 0.960 | |
| Digital Literacy | | 0.717 | |
| Financial Performance | 0.979 | 0.943 | 0.731 |

4.1.3 Reliability Test

The output results of table 4 show that the composite reliability and Cronbach's alpha of all constructs are worth greater than 0.70. As a result, it can be stated that the reliability of all constructs in this study is already good and has established criteria.

Table 5

Output Composite Reliability dan Cronbach's Alpha

| | Financial Literacy | Digital Literacy | Financial Performance |
|-----------------------|---------------------------|-------------------------|------------------------------|
| Composite reliability | 0.922 | 0.952 | 0.925 |
| Cronbach's alpha | 0.905 | 0.946 | 0.909 |

4.1.4 Evaluasi Model Structural (Inner Model) Goodness of Fit

The output result of table 9 indicates a value of 0.313 with a p-value of < 0.001 for APC and a value of 0.960 with a p-value of < 0.001 for ARS. This study's APC and ARS assessment criteria have been met because they have a p-value of < 0.001. Meanwhile, the average variance factor (AVIF) shows an index of 1,687 which has met the criteria of ≤ 3.3 means that no

multicollinearity is found in the model (Table 6). Thus, it can be said that the model used in this study is already good and acceptable.

Table 6

Output Goodness of Fit

| Model Fit Measurement | Output Model Fit Indices and P-Value | Criteria | Description |
|------------------------------|---|---------------------------|--------------------|
| APC | 0.313 P < 0.001 | P < 0.05 | Good |
| ARS | 0.960 P < 0.001 | P < 0.05 | Good |
| AVIF | 1.687 | AVIF < 5 Ideally <=3.3 | Ideal |

4.1.5 Coefficient of Determination (R²)

The output result of table 7 shows the R-square value is 0.960 for the financial performance variable. The results explain that financial performance variables can still explain the variables of financial literacy and digital literacy. The R-square result of 0.960 indicates that the digital literacy variable belongs to the "moderate" category, so it is still acceptable and considered quite good.

Table 7

Output R-Square

| | Financial Literacy | Digital Literacy | Financial Performance |
|-----------|---------------------------|-------------------------|------------------------------|
| R-squared | | | 0.957 |

4.1.6 Effect Size (f²)

The results of the Path Coefficient and P-value tests in Table 8 show that the financial literacy variable has a value of 0.000 which means it can only explain its 0% effect on financial performance variables. A digital literacy variable of 0.012 means that 12% of the variable can explain its effect on financial performance variables. Based on the results of the test, it can be said that financial literacy variables affect financial performance. While digital literacy does not influence financial performance, digital literacy cannot moderate financial literacy with financial performance.

Table 8

Output Path Coefficient and P-Value

| | Financial Literacy | Digital Literacy | Financial Performance |
|--------------------------------------|---------------------------|-------------------------|------------------------------|
| Financial Literacy | | | 0.000 |
| Digital Literacy | | | 0.012 |
| Financial Literacy* Digital Literacy | | | 0.015 |

4.1.6 Predictive Relevance (Q2)

Q-Square testing on table 9 shows the result of 0.507. The result shows a value greater than 0 (zero). Thus from these results, it can be said that this research model is predictive relevance or considered relevant.

| | Financial Literacy | Digital Literacy | Financial Performance |
|-----------|---------------------------|-------------------------|------------------------------|
| Q-squared | | | 0.507 |

4.1.7 Hypothesis Testing

The study used simulated bootstrapping models against samples to test each endogenous latent variable relationship. Testing each of these relationships aims to minimize abnormalities in research data. Here are the results of SEM PLS analysis with the bootstrapping method (Table 10).

Table 10

Path coefficient and P-value Test Results

| Hip | Variable | Path Coeff | P-Value | Description |
|----------------|-----------------|-------------------|----------------|--------------------|
| H ₁ | KL → FF | 2.894 | 0.000 | Significance |
| H ₂ | DL → FF | 2.256 | 0.012 | Significance |
| H ₃ | DL → KL*FF | 2.439 | 0.015 | Significance |

Hypothesis Testing 1

Hypothesis 1 states that financial literacy affects financial performance. Testing the track coefficient between financial literacy and financial performance showed a path coefficient value of 2.894. The value is greater than 0.000 and significant at $\alpha = 0.05$. Thus, it can be concluded that Hypothesis 1 (H1) in this study is accepted.

Hypothesis Testing 2

Hypothesis 2 states that digital literacy affects financial performance. Testing the track coefficient between digital literacy and financial performance showed a path coefficient value of 2.256. The value is between -0.1 to 0.1 and is significant at $\alpha = 0.05$. Therefore, it can be concluded that Hypothesis 2 (H2) in this study was accepted.

Hypothesis Testing 3

Hypothesis 3 states that digital literacy influences financial literacy and financial performance. This path coefficient test shows a path coefficient value of 2.439. The value is between -0.1 to 0.1 and is significant at $\alpha = 0.05$. Therefore, it can be concluded that Hypothesis 3 (H₃) in this study was accepted.

Effect of Financial Literacy on Financial Performance

The government is working to increase financial stability and economic growth in Indonesia by promoting financial literacy. The community reacted to this trend by boosting deposits, the demand for investment credit, and SME businesses' growth. The Covid-19 pandemic has changed the demand for financial literacy, which affects total financial activity and changes the waves of the Indonesian financial cycle. This situation impacts several aspects of the economy as a whole, including shocks to Indonesians' financial literacy levels.

The tests that have been conducted show that financial literacy influences the financial performance of SMEs. The tests that have been carried out prove that financial literacy greatly contributes to improving SMEs' financial performance. The factor of understanding financial knowledge, behavior in making financial reporting, and planning good finances is a step to improve the financial performance of SMEs to boost the economy. The average SME in East Java is depicted in Table 11 as being disciplined in managing and maintaining their finances (31.6%), having daily bookkeeping for all expenses (28.7%), designing and managing their finances well (27.9%), and managing all aspects of their finances, including being frugal and determining the scale of their spending priorities. But there are still a few SMEs that save their funds for unexpected purposes stored in their savings of (23.9%) and a few SMEs who record the amount of expenditure and receipts for daily shopping in detail (23.5%). East Java SMEs are classified as types that can fully understand the role of the financial sector, particularly in financial understanding and planning, because financial iterations can boost Indonesia's economic growth, which is currently moving in a positive direction.

The results showed that disciplined SMEs in financial planning and reporting could increase the company's profit from year to year by 28.7% and the company's capital by 27.8% due to an increase in the number of customers by 24.5% (Table 12). This confirms that bookkeeping practices are beneficial for collecting financial information (Mabula & Ping, 2018). This is because good bookkeeping is a crucial component of healthy accounting practices and determines whether SMEs succeed or fail. (Maseko & Manyani, 2011).

Table 11

Crosstab Financial Literacy Component with Average Respondent Answers (%)

| Financial Literacy Component | SD | MD | N | MA | SA |
|-------------------------------------|-----------|-----------|----------|-----------|-----------|
| General Knowledge of Finance | 4.32 | 19.45 | 32.00 | 11.06 | 33.17 |
| Financial Behavior | 5.67 | 2.62 | 27.18 | 31.36 | 39.96 |
| Financial Attitude | 000 | 8.10 | 17.21 | 26.18 | 48.50 |

According to the research, SMEs generally have sufficient financial literacy skills. As a result, commercial and financial decisions made by SMEs will lead to long-term sustainability and better development over time. This will increase their potential to survive pandemics. Financial literacy may assist SMEs in raising a person's level of understanding of how to deal with financial issues, enabling them to process financial data and then make the best financial decisions for themselves. The well-being of SMEs may be directly impacted by financial literacy.

According to Muraga and John (2015), SMEs in East Java, Indonesia, with strong financial literacy, can improve the financial performance of their businesses. SMEs can utilize their financial expertise to make various wise business decisions. Since effective financial literacy also translates to good management of SME financial performance, SMEs must comprehend savings, credit, and financial planning now and in the future.

The analysis results comply with the Resource-Based Theory (RBV) proposed by (Barney, 1991). The theory provides the view that business resources in the form of financial literacy can (Barney, 1991) be valuable for the business in achieving a performance advantage and competitive advantage. So in this study, the financial performance of SMEs is strongly influenced by their financial literacy level. It is relevant to research by (Davidson et al., 2004; Wise, 2013) which shows that financial literacy is important for the survival of SMEs in developed and developing countries. The results of this study are also consistent with those of Huston (2010), which shows that financial literacy is needed to cope with rapid economic changes.

According to Hung et al. (2009), financial literacy is a measurement of one's understanding of financial terms and the capacity to manage their finances effectively when making decisions both now and in the future that take into account changing circumstances such as needs and economic conditions. Higher financial literacy tends to lead to better planning and tremendous success for

the individual (Lusardi & Mitchell, 2013). Because sound financial management is necessary to support a successful organization, it is crucial to increase financial literacy in business management. If SMEs' human resources raise their level of financial literacy, financial management will become more effective. Therefore, a business' performance, especially that of SMEs, depends greatly on its level of financial literacy.

The Effect of Digital Literacy on Financial Performance

The tests that have been conducted show that digital literacy influences the financial performance of SMEs. The test results obtained a significant value of digital literacy variables of more than 5% of $0.012 < 0.05$. So it can be concluded that digital literacy significantly affects the performance of SMEs in East Java. The average SMEs in East Java shown in Table 12 are aware that they can communicate with others via the internet (34%), are familiar with some applications that can be used to do so (33.2%), and can communicate with others via text or writing (31.6%), can combine text, images, and videos (31.5%), and are aware of the benefits and downsides of each application (30%). But there are still few who know to broadcast or spread content products over the internet (23.8%), and broadcasts carried out contain personal works (23.5%). Because post-pandemic digital literacy can enhance understanding of the digitization of these businesses, East Java SMEs are classified as being in the category that can fully understand the importance of digitalization during the pandemic.

Table 12

Crosstab Digital Literacy Component with Average Respondent Answers (%)

| Digital Literacy Components | SD | MD | N | MA | SA |
|------------------------------------|-----------|-----------|----------|-----------|-----------|
| Social Networking | 9,73 | 12,32 | 30,07 | 17,26 | 30,62 |
| Transliteracy | 0,00 | 0,00 | 39,65 | 22,69 | 37,66 |
| Maintaining Privacy | 16,21 | 29,68 | 0,00 | 12,97 | 41,15 |
| Managing Digital Identity | 16,21 | 29,68 | 0,00 | 12,97 | 41,15 |
| Creating Content | 10,81 | 17,79 | 20,78 | 17,96 | 32,67 |
| Organizing and Sharing Content | 5,67 | 12,41 | 13,97 | 22,07 | 45,89 |
| Filtering and Selecting Content | 6,48 | 25,94 | 36,41 | 6,98 | 24,19 |
| Self-Broadcasting | 4,86 | 16,58 | 8,10 | 16,21 | 54,24 |

According to Pasty and Wahyuhastuti (2017), the continuous development of technology can have a positive impact, one of which is when someone gets opportunities that can be used in business. SMEs use each minute in digitalization to grow and develop around us by offering almost the same features as each other so that skills, innovations, and creativity tend to be owned by young people who can be applied in everyday life and business. With high digital literacy, a person is easier to find and study business risks to avoid, build business planning in the future, or find ways to overcome the business problems he experiences or, in other words, improve entrepreneurial behavior in a person. A person's ability to understand and apply functional skills to digital devices can also help him develop a business, for example, through digital marketing (Prabawati, 2019).

A person's entrepreneurial behavior is improved when they have high levels of digital literacy because they can more readily identify and learn about potential business hazards so that they can be avoided, create future business plans, or find solutions to current problems. The ability to comprehend and use practical abilities with digital technologies can also assist someone in growing a business, for instance, through digital marketing.

The results of this study are consistent with the research of Son (2017) that the development of digital technology is considered to make it easier for someone to learn or find information about something. According to Son (2017), it is also relevant to Ollerenshaw et al. (2021) that internet connectivity is crucial in advancing SMEs, making marketing more manageable.

The influence between Financial Literacy and Financial Performance moderated by Digital Literacy

The tests that have been conducted show that digital literacy can moderate SMEs' financial literacy and financial performance. The test results obtained a significant value of digital literacy variables of more than 5% of $0.015 < 0.05$. So it can be concluded that digital literacy can affect SMEs' financial literacy and financial performance in East Java. This means that SMEs who understand the importance of digitalization have an influence on discipline in financial reporting which has an impact on the financial performance of SMEs.

Financial knowledge of the income and expenditure of money that has not been managed correctly can result in waste and a failure to pay attention to future circumstances. In contrast, good management of the income and expenditure of money can assist SMEs in developing short- and long-term plans to achieve SME objectives. Additionally, it can protect SMEs from failing in their firm. Good financial management can handle acquiring finances and survive in the future despite pandemic conditions.

So that SMEs still have to innovate to increase their sales outside of digitalization, adding production tools is also one of the improvements in SMEs' performance to increase production capacity in pursuing SMES order targets. It is seen in Table 13 that innovating in digitalization

can increase sales so that the order target will also be achieved. Sales that rise then the company's profit and capital will increase from year to year.

Table 13

Crosstab Financial Performance Component with Average Respondent Answers (%)

| Financial Performance Components | SD | MD | N | MA | SA |
|---|-----------|-----------|----------|-----------|-----------|
| Sales growth | 0 | 9.72 | 18.37 | 19.62 | 52.29 |
| Capital growth | 0 | 4.23 | 18.45 | 30.26 | 47.05 |
| Marketing growth | 7.56 | 3.40 | 17.21 | 30.84 | 40.98 |
| Profit growth | 3.2 | 8.0 | 29.6 | 19.7 | 39.5 |

5. Conclusions, Limitations, and Suggestions

One of the barriers to SMEs in developing countries is the existence of information technology for digitalization. SMEs face relative challenges in terms of the availability of technology and public awareness of the importance of digitalization for improving the financial performance of SMEs. Some SMEs believe that implementing cutting-edge technologies is an effective way to grow their company. In addressing these challenges, it is crucial to understand the relative impact of financial and digital literacy on the practices of SME companies. In order for SMEs to perform better in practice, it is crucial to position SME owners to advance their knowledge and financial skills with the appropriate digitalization progress. Although this study has some data and analytical approach limitations, it highlights the advantages of integrating financial management and SME digitization to promote economic recovery during the pandemic. There is still a lot of untapped potential from digitization and implications for its users, particularly in enhancing SMEs' financial performance. This study suggests further scientific research to investigate more about the phenomenon from different variables.

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