

ORIGINAL ARTICLE

The Role of Financial Technology on Income in Small and Medium Enterprises (SMEs)

Eri Yanti Nasution

ABSTRACT

This paper examines the effect of the application of financial technology on SMEs income in Medan. Sampling using the accidental sampling method as many as 100 SMEs in Medan. The method of data collection is by distributing online questionnaires. The method of data analysis in this study used regression analysis. The results of the analysis explain that the application of financial technology influences the income of SMEs in Medan.

Keywords: financial technology, income

DOI : <https://doi.org/10.30596/ijbe.v3i1.7897>

JEL Classification : B26, L26, P36



Copyright©2021, International Journal of Business Economics (IJBE). This is an open access article under the CC-BY-SA licence <http://creativecommons.org/licenses/by/4.0>

Cite this article as:

Nasution, E. Y. (2021). The Role of Financial Technology towards Income of Small And Medium Enterprises (SMEs). *International Journal of Business Economics (IJBE)*, 3(1), 29-33.

Faculty of Economics and Business,
Universitas Muhammadiyah Sumatera Utara
Jalan Kapten Mukhtar Basri No 3 Medan, North Sumatra, Indonesia
**Corresponding:* eriyanti@umsu.ac.id

INTRODUCTION

Small And Medium Enterprises (SMEs) in Indonesia are one of the most dominant business sectors. The large number of SMEs business actors illustrates that this sector has good potential in supporting the economy. The fairly good performance of SMEs was seen during the crisis that hit Indonesia, by contributing to Gross Domestic Product (GDP) and employment (Widyastuti, Nuswantoro, & Sidhi, 2016). This is what underlies the increasing capacity of SMEs, especially in facing the industrial era 4.0. The movement of the industrial revolution 4.0 which has echoed in recent years has an impact on changes in the way of working in various fields, especially in business field. Entrepreneur are starting to use information technology and telecommunications to run and support their business activities. The movement and changes in the way of doing business that are increasingly fast towards digitalization are forcing entrepreneur to adapt to follow these changes. For big companies, changes in business patterns that lead to the digitization process are not too constrained due to the characteristics of large companies that have good enough resources. However, for SMEs, this digitalization process will require a lot of preparation, but it must be done to continue to increase their income.

According to the Indonesian Institute of Accountants, income is income that arises from the usual activities of a company and is known by different names such as sales. According to Munandar (2006), the notion of income is an increase in assets that results in an increase in owners' equity, but not because of an increase in new capital from the owner and not an increase in assets caused by an increase in liabilities. A person's condition can be measured using the concept of income which shows the total amount of money received by a person or household during a certain period (Samuelson and Nordhaus, 2002). Another definition of income is the amount of income earned from work and usually a person's income is calculated every year or every month. Thus, income is an illustration of the family's economic position in society. Family income in the form of the total income and wealth of the family, is used to divide the family into three income groups, namely: low income, middle income, and high income. The division above relates to status, education, and skills as well as the type of worker a person has but its nature is very relative (Endang Hariningsih and Rintar Agus Simatupang, 2008). who are engaged in a certain type of work, including work in the informal sector or trade, strive to always increase the income from the results of their business which is used to meet the needs of their family life and wherever possible the income obtained can improve the standard of living of their family.

Bank Indonesia explained that financial technology (FinTech) is the result of a combination of financial services and technology that changes the business model from conventional to moderate. Bank Indonesia Regulation Number 19/12/PBI/2017 explains that FinTech is the use of financial system technology that produces new products, services, technology, and/or business models and can have an impact on monetary stability, financial system stability, efficiency, smoothness, security, and reliability. payment system. Fintech is not a service provided by banks but a new business model that really helps the community. Fintech provides services in the form of financial transactions without having to have an account like in banking in general. Fintech is still regulated by Bank Indonesia even though it is not a financial institution such as banking, this aims to protect consumers or the public. Bank Indonesia regulates fintech operating companies to be required to register their companies with Bank Indonesia or the Financial Services Authority. Bank Indonesia explained that FinTech can replace the role of formal financial institutions such as banks. The development of FinTech creates creative disruption for the Indonesian people who are not ready to accept changes in economic activity. On the other hand, fintech provides new opportunities for the economy to

increase its economic activities more efficiently and effectively (Afifah 2018). FinTech has helped finance small and medium-sized businesses that lack access to banking. With mature regulations, it encourages SMEs to develop their businesses by making easy loan transactions through FinTech.

Fintech according to Fintech weekly is one of the modern technology and software-based businesses that provides financial services. Fintech companies are generally start-up companies that provide financial services and solutions to customers such as mobile payments, money transfers, loans, fundraising, and even asset management. Fintech is an innovation in the financial sector that gets a touch of modern technology. Financial transactions through fintech include payments, investments, lending money, transfers, financial plans, and comparisons of financial products. Currently there are 142 identified companies engaged in fintech. The financial technology industry (fintech) is one of the methods of financial services that is gaining popularity in today's digital era. And digital payments are one of the most growing sectors in the FinTech industry in Medan. This sector is what the government and the public most hope for to encourage an increase in the number of people who have access to financial services.

Fintech with financial services such as crowd funding, mobile payments, and money transfer services is causing a revolution in the startup business. With crowd funding, it is easy to get funds from all over the world, even from people you have never met. Fintech also allows money transfers globally or internationally. Payment services such as PayPal automatically change currency exchange rates, so that those in America can easily buy goods from Medan, Fintech also has an important role in changing consumer behavior and expectations, including being able to access data and information anytime and anywhere. And the second generalizes large and small businesses so that they tend to have high expectations even for small businesses that are just being built.

Globally, the Fintech industry continues to grow rapidly. It is evident from the emergence of startup companies in this field and the large global investment in it. Especially in Medan, this business is growing very rapidly to attract the attention of all entrepreneurs in Medan. The development of SMEs in Medan also shows growth every year. This is also followed by the growth in employment which has increased every year. Based on these data, the government must continue to increase the growth of SMEs, because with the increase in SMEs, the absorption of the number of workers will also increase. However, along with increasingly sophisticated technological changes, Medan's SMEs must follow these changes to survive in the market. Especially with the current pandemic situation, SMEs must think of ways to stay afloat and follow current consumer behavior. Currently, consumers have made non-cash transactions to avoid the spread of the virus. Starting from shopping to payment all done from home.

METHODS

This research is a quantitative and descriptive research. Descriptive research is an analysis that is used to provide a description of the data collected in research (Ferdinand, 2014: 9) Quantitative research is a process of finding knowledge that uses data in the form of numbers as a tool to analyze information about what is desired. This research was conducted in the city of Medan, North Sumatra, Indonesia, and the population is MSMEs in the city of Medan. According to Kuncoro (2009:118) the sample is a subset of the population unit, the sample size that is suitable for use is 30-500 respondents. The sample in this study was 100 business units with minimum criteria of having an income of less than Rp. 300,000,000 per year.

The data used in this study are primary data obtained from respondents by distributing online questionnaires and secondary data obtained through documentation studies from books,

journals, and internet sites to support this research. Online questionnaires are used to collect data by making questions or statements that will be answered by respondents later. Sampling was done by accidental sampling, which is a random sampling technique but in accordance with the research objectives. The first test carried out was the validity and reliability test. Validity test is conducted to measure whether the data obtained after the research is valid data with the measuring instrument used. The reliability test was conducted to show the level of confidence in the measuring instrument. Then the classical assumption test is used to assess whether in a linear regression model there are classical assumption problems such as the normality test which is intended to determine whether the data is normally distributed or not by looking at the results of the chi square value in smartpls.

The t-test is used in this study to test the significance of the simple correlation whether the variable (x), partially or individually has a significant relationship or vice versa with the related variable (y). Furthermore, the coefficient of determination (D) test is carried out, which is to find out how much percentage can be explained by the independent variable to the dependent.

RESULT AND DISCUSSION

A simple regression test was carried out to see the effect of implementing financial technology on the income of SMEs in Medan during the pandemic. The result is as below:

Table 1. Path Coefficients

Mean, STDEV, T-Values, P-Values	Original sample (O)	Sampel Mean (M)	Standard Deviation (STDEV)	T Statistic (IO/STDEVI)	P Values
Financial technology (X) → Income (Y)	0,497	0,520	0,088	5,664	0,000

From the table 1 above, the application of financial technology helps SMEs to increase their income during the pandemic. With the results of the t statistic of $5.664 > t$ table of 1.66055 with P Values of $0.000 < 0.5$.

Table 2. R Square

Matrix	R Square	R Square Adjusted
Income	0,247	0,239

Based on the results of the t test, the application of financial technology influences the income of SMEs in Medan. Then to see how much influence the coefficient of determination test is carried out. From table 2 above, it can be concluded that the effect of the application of financial technology on the income of SMEs in Medan is 0.247, the value of R square or about 24.7 percent.

Discussion

Based on the results of data processing, the t-count of the application of financial technology is $5.664 > 1.66055$ with P values (significant value) of $0.001 < 0.05$, which means

that financial technology has a positive and significant effect on the income of MSMEs in the city of Medan. This shows that the application of financial technology influences the income of MSME actors. The application of this financial technology can be seen in various applications or in daily life such as the OVO application, Go Pay, e Money, the application of e-toll, and other transfer applications. This is in accordance with the research of Ramlah Puji Astuti (2020) that market demand can be met by MSMEs properly by utilizing technological developments. Similar research was conducted by Budi Rahardjo (2019) who examined financial technology as a separate opportunity and challenge for MSME actors. The challenge is to be able to keep up with technological changes and keep looking for opportunities so that MSME incomes continue to increase along with technological changes.

CONCLUSION

Based on the tests carried out, it was found that the application of financial technology influenced the income of SMEs in Medan. This is expected to be an input for SMEs to keep abreast of technological developments if they want to survive in the market. For further researchers, they can also conduct research with different variables so that they can be a reference for SME actors in surviving in the market, especially in this pandemic era.

ACKNOWLEDGEMENT

Thank you to all parties, especially the Universitas Muhammdiyah Sumatera Utara who have supported financially in completing this research.

REFERENCES

- Budi Rahardjo (2019) Pengaruh Financial Technology (Fintech) Terhadap Perkembangan Umkm Di Kota Magelang. *Prosiding Seminar Nasional dan Call papers "Fintech Dan E-Commerce Untuk Mendorong Pertumbuhan Umkm Dan Industri Kreatif"*.
- Bursch, Dan. (2014). *"Managing the Multigenerational Workplace"*. Diunduh 10 Januari 2020
- Ferdinand, A. (2014) Metode Penelitian Manajemen (Pedoman Penelitian untuk Penelitian Skripsi, Thesis, dan Disertasi Ilmu Manajemen. Edisi kelima. Semarang : UNDIP
- Ghozali, I. (2013). *Aplikasi Analisis Multivariate Dengan Program SPSS*, Edisi Ketujuh. Badan Penerbit Universitas Diponegoro: Semarang
- Helmalina & afrinawati (2018) Pengaruh E-Commerce Terhadap Peningkatan Pendapatan Usaha Mikro Kecil Dan Menengah Di Kota Padang . *JEBI (Jurnal Ekonomi dan Bisnis Islam)* - Volume 3, Nomor 2, Juli – Desember 2018
- Kuncoro, Mudrajad., (2009) *.Metode Riset untuk Bisnis dan Ekonomi*. Erlangga : Jakarta
- Ramlah puji astuti, dkk (2020) Pengembangan Umkm Melalui Digitalisasi Tekonolgi Dan Integrasi Akses Permodalan. *Ethos: Jurnal Penelitian dan Pengabdian kepada Masyarakat*, Vol 8, No.2, Juni 2020: 248-256
- Schiffman, L. G., Kanuk, L. L., & Hansen, H. (2012). Consumer behaviour: A European outlook. In *Consumer Behaviour: A European Outlook*.
- Uma, Sekaran., (2006). *Metodologi Research untuk Penelitian Penulisan Paper, skripsi, Thesis dan Disertasi*, Jilid Tiga. Yogyakarta :Penerbit Andi
- Yusyida Munsa Idah dan Muliasari Pinilih (2019) *Prosiding Seminar Nasional dan Call papers Pengembangan Sumber Daya Perdesaan dan Kearifan Lokal Berkelanjutan IX"* 19- 20 November 2019