

## THE INFLUENCE OF FINANCIAL MANAGEMENT ON FINANCIAL PERFORMANCE IN THE RUMAH KAWAN BUNDA UMKM COMMUNITY

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**Abstract:** This research was conducted because most MSME owners still do not know proper financial management. This can affect the preparation of MSME financial reports. Financial performance plays a very important role for MSMEs, because they have to ensure that their business can survive and grow. This research also aims to achieve the following objectives: (1) To test and analyze whether financial management has an effect on the financial performance of Rumah Kawan Bunda MSMEs; This research uses an associative research approach. The type of data in research uses quantitative data. The population of this study was 250 MSME actors, the sample was 98 MSME actors, who were selected using the purposive sampling method. Data collection techniques use primary data obtained from questionnaires. The data analysis technique was carried out using SEM – PLS. The results of this research show that: Financial Management has an effect on Financial Performance.

**Keywords:** Financial management, financial performance, MSMEs.

### Introduction

MSMEs in Indonesia are mostly household business activities that can absorb a lot of labor. Based on data from the (Ministry of Cooperatives and SMEs), in Indonesia in 2019, there were 65.4 million MSMEs. With the number of business units reaching 65.4 million, it can absorb 123.3 thousand workers. This proves that the impact and contribution of MSMEs is very large in reducing the unemployment rate in Indonesia. With the increasing involvement of workers in MSMEs, it will help reduce the number of unemployed in this country (Tambunan, 2023) . MSMEs are one of the organizations that are currently developing, especially in Indonesia, the existence and role of MSMEs are very helpful in improving the country's economy. MSMEs are an important pillar in improving the country's economy because the existence of MSMEs can open and expand employment opportunities, so that they can help the government in providing jobs (Olivia, 2020) .

Economic growth in Medan City, North Sumatra according to the Central Statistics Agency (BPS), small and medium enterprises and cooperatives contributed 83.6%, while large businesses contributed 16.4%. Based on market share control, small and medium enterprises and cooperatives control 80% of the market share, while large businesses control 20% of the market share. This shows that small and medium enterprises can increase people's income and encourage economic growth (Hani & Fauzi, 2017) .

Micro, Small and Medium Enterprises (MSMEs) also need a strategy to be able to control everything to achieve a goal properly. With a strategy, it is hoped that MSMEs can develop according to expectations. This development must be accompanied by the development of creativity, skills, problem solving, learning and human development in a business organization (Putri & Sungkono, 2023) .

In the context of MSMEs, business owners often also act as managers, but in some cases, they may appoint managers to manage the business. Conflicts of interest can arise when the goals of the owner are not aligned with the interests of the manager. Managers who are not aligned with the goals of the owner may make suboptimal investment decisions, thereby affecting the profitability and growth of the business. Agency theory provides important insights into how the relationship between owners and managers can affect the financial performance of an organization. By understanding and managing conflicts of interest, companies can improve management efficiency and achieve better financial performance.

Financial Performance is a certain determination that can measure the success of an organization or company in generating profits (Alamsyah, 2020) . Financial performance is generally used as a measure of business health. The financial performance of MSMEs is usually used as a medium in subjective measurement to describe the effectiveness of asset utilization in increasing business income (Adriani & Yuniar, 2023) .

Factors that affect the financial performance of MSMEs are lack of capital, length of business, and provision of credit (Octaviani & Putri, 2021) . Although the government has made efforts to increase access to capital for MSMEs, there are still obstacles for some MSMEs to access formal financing sources (banks, cooperatives, financial institutions). Limited capital can make it difficult for MSMEs to invest and develop their businesses. Based on initial observations, limited financial information is one of the main factors that causes MSMEs to have difficulty accessing capital. Many MSMEs do not yet have adequate bookkeeping and financial reports. This condition makes it difficult for financial institutions to assess the creditworthiness of MSMEs. So MSMEs have difficulty in increasing capital.

A person with good financial knowledge will greatly assist him in managing his business finances and that will be an advantage of a businessman. Of course, with a financial attitude and wisdom in managing finances will greatly affect their business and become a very profitable value for developing the business they run (Hanasri et al., 2023) . According to (Nopiyani & Indiani, 2023) Financial performance can be measured by increasing income, increasing profits, and increasing assets. Increasing the ability to manage finances is important to improve the financial performance of a business.

Good financial management is very important for the sustainability and financial performance of MSMEs. Effective financial management can help MSMEs make the right financial decisions, manage cash flow, and allocate resources efficiently. Previous studies have shown that good financial management has a positive effect on the financial performance of MSMEs (Aruan, 2020; Sudaryo & Purnamasari, 2018).

In running an MSME business, you must have knowledge and skills in effective financial management. Financial management is one of the important aspects for the progress of the company. Financial management can be done through accounting. Accounting is a systematic process to produce financial information that can be used for decision making for its users. Improper financial management also results in the determination of the cost of goods sold being set incorrectly. The impact is that the company will experience losses and result in bankruptcy. (Reni, 2018) .

At this time, the implementation of accounting bookkeeping is still very difficult for MSME actors. This is due to the lack of accounting knowledge possessed by MSME actors. According to (Lestanti, 2016) A business actor should have the view that financial management in his business is very important to implement. This perception can certainly arise as the business progresses, but most business actors have a lot of experience in managing the business they run because their understanding of the importance of managing business finances is still lacking.

### **The Influence of Financial Management on Financial Performance**

Financial management includes a series of activities aimed at planning, organizing, controlling, and monitoring financial resources. The main focus of financial management is to ensure the efficiency and effectiveness of resource use in achieving organizational goals (Brigham & Ehrhardt, 2013). The better the financial management carried out by MSMEs, the higher their performance. Professionalism in financial management will help business actors related to business management starting from budgeting, planning business fund savings, and basic financial knowledge to achieve business financial goals (Hartina et al., 2023).

Financial performance analysis plays a very important role for MSMEs, because they must ensure that their businesses can survive and grow. Poor financial performance can cause MSMEs to experience liquidity problems and the ability to pay debts. Therefore, MSMEs must monitor their cash flow, net profit, and debt ratio carefully. In this way, MSMEs can identify financial problems quickly and take the necessary actions to fix them. MSME financial performance analysis can also help them determine financial goals, understand their business performance and identify opportunities to increase revenue (Putri & Sungkono, 2023).

Good financial management supports sound investment decision making. This leads to increased assets and income, which contributes to the growth of financial performance. Fischer and O'Neill (2020) emphasize the importance of financial analysis in investment decision making to improve performance. Effective cash flow management ensures that the company has sufficient liquidity to meet its financial obligations. According to research by Hassan and Mollah (2020), well-managed cash flow contributes to higher financial performance.

H<sub>1</sub> : Financial Management has an effect on Financial Performanc.

### **Literature Review**

Agency Theory is a theory that underlies corporate business practices, namely when the management of the company is no longer carried out directly by the company owner (principal) but is handed over to another party (agent) (Selviana & Wenny, 2021)

Performance is a parameter of a business's success in achieving its goals. Company performance is related to the organization's strategic goals, customer satisfaction and contribution to the economy (Fitriasandy & Anam, 2022). There are 3 indicators of financial performance, namely: 1. Increased Sales, 2. Increased Capital, 3. Increased Profit (Alamsyah 2020).

According to Diyana 2017 ( Khadijah & Purba, 2021) Financial management is the entire process carried out to obtain company income by minimizing costs, in addition to efficient use and allocation of funds can maximize the value of the company. And also according to (Riadi, 2019) Financial management is the activity of planning, budgeting, auditing, managing, controlling, finding and storing funds owned by an organization or company. There are 4 indicators of financial management, namely: 1. Sources of funds, 2. Financial reports, 3. Cash management, 4. Budgeting (Ully, 2023).

### **Method**

The variables of this study consist of dependent variables, namely Financial Performance, independent variables used are Financial Management. The object of this study is the Rumah Kawan Bunda UMKM Community, located at Jl. Veteran Ps. 4 No.22, Helvetia, Kec. Labuhan Deli, Deli Serdang Regency, North Sumatra 20244. The data collection technique in this study uses primary data obtained from the questionnaire, the questionnaire distributed by the researcher uses a Likert scale. On the Likert scale, the response to each instrument item varies from very positive to very negative. The number of respondents taken from this study was 98

respondents of the Rumah Kawan Bunda Community UMKM actors. The analysis technique used in this study is SEM - PLS.

**Result and Discussion**

From the results of the study conducted by distributing questionnaires to respondents, namely UMKM Rumah Kawan Bunda. Then 98 respondents were obtained from those who filled out the questionnaire through the distribution of questionnaires to 98 respondents. All questionnaires collected can meet the requirements for processing, namely 98 questionnaires. The following are details regarding the distribution and return of questionnaires:

**Table 1**  
**Research Sample Distribution Data**

No	Information	Amount
1	The questionnaire was distributed	98
2	Number of Questionnaires returned	98
3	Number of damaged/defective questionnaires	0
4	Number of Questionnaires that can be used for data analysis	98
<b>Response rate = 98/98 x 100%</b>		100%
<b>Data obtained</b>		98

*Source: Processed By The Author*

Table 1 shows that the number of research questionnaires distributed to respondents was 98 questionnaires, and all of the questionnaires were returned and filled out properly. Therefore, the data that can be obtained is 98 with a percentage of 100%.

**Table 2**  
**Cross Loading**

	financial performance	financial management
X1.6		0.884
X1.3		0.875
X1.7		0.845
X1.9		0.840
X1.4		0.836
X1.2		0.816
X1.5		0.814
X1.8		0.794
X1.10		0.790
X1.1		0.740
Y1	0.820	

Y2	0.825
Y5	0.826
Y3	0.834
Y4	0.895

Source: Processed By The Author

Based on the data in Table 2, it is known that each indicator in the research variable has the largest *cross-loading value* on the variables it forms compared to the *cross-loading value* on other variables. Based on the results obtained, it can be stated that the indicators used in this study have good *discriminant validity* in compiling their respective variables.

**Table 3**  
**Composite reliability**

	Composite reliability
FINANCIAL PERFORMANCE	0.923
FINANCIAL MANAGEMENT	0.955

Source: Processed By The Author

Based on Table 3, it is known that the *composite reliability value* of all research variables is  $> 0.7$ . This result shows that each variable has met *the composite reliability* so that it can be concluded that all variables have a high level of reliability.

**Table 4**  
**Cronbach's Alpha**

	Cronbach's alpha
FINANCIAL PERFORMANCE	0.896
FINANCIAL MANAGEMENT	0.947

Source: Processed by the Author

Based on Table 4, it is known that *the Cronbach's alpha value* of each research variable is  $> 0.7$ . So this result shows that each research variable has met the high reliability requirements.

**Table 5**  
**T- Statistics and P- Values**

	Original sample (O)	T statistics ((O/STDEV))	P values
FINANCIAL MANAGEMENT -> FINANCIAL PERFORMANCE	0.831	15,053	0.000

Source: Processed By The Author

Based on Table 5, the hypothesis test can be explained as follows:

Based on the results of the hypothesis test, the *P- value* obtained was  $0.000 < 0.05$  shows that financial management has an effect on financial performance in the Rumah Kawan Bunda MSME Community. This shows that financial management has a significant effect on financial performance in the Rumah Kawan Bunda MSME community. This means that effective and good financial management contributes significantly to improving the financial performance of MSMEs in the community. In other words, good financial management practices—such as budget planning, use of fintech, and understanding risk—have the potential to increase the profitability, efficiency, and financial stability of MSME businesses. These results emphasize the importance of a good financial management strategy in achieving optimal financial performance, and encourage MSMEs to continue to improve their financial management

capabilities to support business growth and success. With good cash management, MSMEs can avoid mixing funds that can disrupt cash flow and financial planning. This relationship shows that effective cash management—including financial separation—plays an important role in improving the financial performance of Rumah Kawan Bunda MSMEs, because it allows business actors to better plan and manage their financial resources, and increase business stability and profitability. The results of this study are in line with the better financial management carried out by MSMEs, the higher their performance. Professionalism in financial management will help business actors related to business management starting from budgeting, planning business fund savings, and basic financial knowledge to achieve business financial goals (Hartina et al., 2023).

### Conclusion

The results of the PLS analysis using SmartPLS 4.0 on the results and discussion of the research discussed previously show that the results of the research conclusions that can be drawn from the results of the analysis are: Financial management affects financial performance, meaning that the better the financial management, the better the financial performance. then the better it is to run the business.

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