

**THE INFLUENCE OF FINANCIAL MANAGEMENT AND FINANCIAL INCLUSION THROUGH HR
COMPETENCE ON MSME PERFORMANCE**

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Abstract

Micro, Small and Medium Enterprises (MSMEs) have an important role in the economy because of their contribution to economic growth and job creation. However, MSMEs often face challenges in managing finances and accessing formal financial services, which can affect their business performance. This study aims to identify the influence of financial management and financial inclusion through the competence of Human Resources (HR) on the performance of MSMEs in Makassar City . The research method used is a survey by collecting data from 100 respondents of MSME owners or managers in Makassar city . The variables studied included financial management, financial inclusion, HR competence, and MSME performance. Data were analyzed using Path Analysis. The results of the study show that financial management and financial inclusion have a significant effect on performance MSMEs. MSMEs that have good financial management and wider access to formal financial services tend to have better business performance. In addition, HR competencies also have a positive influence on MSME performance. Competent human resources are able to manage finances efficiently, make smart decisions, and innovate in increasing business competitiveness.

Keywords: *Management, inclusion, finance, performance, MSMEs*

A. INTRODUCTION

MSMEs play an important role in the economy of the city of Makassar and have a major contribution to local economic growth. MSMEs in the city of Makassar cover various sectors, ranging from the craft industry, trade, services, to culinary. However, along with the times and increasingly fierce business competition, MSMEs are faced with various challenges, such as limited capital, limited access to finance, as well as the high level of competition in the market. To respond to these various challenges, the competence of business actors in the field of management Finance and financial inclusion are believed to be the best solution in order to improve MSME performance. Effective financial management enables MSMEs to manage cash flow, manage debt, and optimize the use of financial resources. However, many MSMEs who do not have adequate understanding of financial management, which can cause financial problems and hinder business growth. According to Akhtar and Khan (2013), financial management plays an important role in achieving better performance for MSMEs. Efficient fund management, including funding arrangements and resource allocation, provides benefits for MSMEs in overcoming capital constraints. Financial inclusion plays an important role in supporting the growth of MSMEs in the city of Makassar. Wider access to Formal financial services, such as banking, insurance and credit, allow MSMEs to gain access to the capital they need for business expansion, investment and protect themselves from financial risks. However, the level of financial inclusion in the city of Makassar is still uneven, especially for MSMEs operating in remote areas or with small capital .

B. LITERATURE REVIEW

Financial management

- a. Brigham and Houston (2014): "Financial Management includes the activities of financial planning, capital budgeting, and management of company funds and investments. The main

objective of financial management is to optimize the value of the company by maximizing share value for shareholders."

- b. Gitman and Zutter (2016): "Financial Management involves making decisions regarding the source and use of company funds to achieve company goals. Its focus includes managing cash flows, assets and liabilities to achieve optimal financial performance."
- c. Van Horne and Wachowicz (2008): "Financial Management is the process of making decisions regarding the acquisition and use of company funds. The goal of financial management is to create corporate value by managing financial resources efficiently."

Financial Inclusion

- a. World Bank (2013): "Financial inclusion includes public access and participation in formal financial services, including banking, insurance, investment, and credit. The aim of financial inclusion is to increase accessibility and financial services for segments of society that have not been served financially."
- b. Levine (2005): "Financial inclusion is the willingness and ability of people to use and access financial services effectively. This includes aspects of physical access, policies, and regulations that facilitate people's participation in the financial system."
- c. Demirgüç-Kunt and Klapper (2012): "Financial inclusion describes the level of people's participation in the financial system, including access to savings accounts, credit, insurance, and other financial services. Financial inclusion has an impact on economic progress, growth, and poverty reduction."

HR competence

- a. Latham and Pinder (2005): "HR competency includes the knowledge, skills, and attitudes possessed by individuals to achieve goals and job tasks effectively. HR competency involves the ability to recognize, understand, and overcome challenges in the work environment."
- b. Spencer and Spencer (1993): "HR competency is a personal characteristic that reflects an individual's level of ability and potential for superior job performance. This includes technical ability, leadership, analytical thinking, and interpersonal skills."
- c. Boyatzis (1982): "HR competence is a pattern of behavior and knowledge that is integrated to achieve work goals effectively. HR competency involves the ability to deal with complex and diverse situations in an adaptive and result-oriented way . "

MSME Performance:

- a. Carter and Van Auken (2006): "The performance of MSMEs includes achieving business goals, financial health, and sustainable business growth. MSME performance can be measured through indicators such as profit levels, turnover, market share, and customer satisfaction levels."
- b. Anand and Hassan (2015): "The performance of MSMEs reflects the ability of businesses to achieve operational efficiency, strategic effectiveness, and competitiveness in the market. MSME performance contributes to achieving long-term business goals."
- c. Hallberg and Nyström (2009): "The performance of MSMEs is a reflection of the achievement of various objectives which include financial aspects, productivity, product or service quality, innovation, and customer satisfaction. MSME performance affects business growth and contribution to the local economy."

C. METHOD

The research design is descriptive quantitative using a survey method approach . The population of this study are MSME actors in the city of Makassar, specifically the culinary sector. The data analysis technique uses path analysis with the help of SPSS 25 software to analyze the direct and

indirect influence between financial management variables, financial inclusion, HR competence and MSME performance.

D. RESULTS AND DISCUSSION

Results of Validation and Reliability of Research Instruments

Financial Management(X1)

Statement Items	value_r_ Count	Value_r_ Table	Sig. (2-tailed)	Information
X1.1	.586	.195	.000	" Valid "
X1.2	.770	.195	.000	" Valid "
X1.3	.837	.195	.000	" Valid "
X1.4	.718	.195	.000	" Valid "
X1.5	.693	.195	.000	" Valid "

Source: Processed data

Financial Inclusion(X2)

Statement Items	value_r_ Count	Value_r_ Table	Sig. (2-tailed)	Information
X2.1	.733	.195	.000	Valid
X2.2	.821	.195	.000	Valid
X2.3	.704	.195	.000	Valid
X2.4	.786	.195	.000	Valid
X2.5	.704	.195	.000	Valid
X2.6	.640	.195	.000	Valid

Source: Processed data, 2022

HR Competency (Y)

Statement Items	value_r_ Count	Value_r_ Table	Sig. (2-tailed)	Information
Y.1	.841	.195	.000	Valid
Y.2	.869	.195	.000	Valid
Y.3	.836	.195	.000	Valid
Y.4	.782	.195	.000	Valid
Y.5	.801	.195	.000	Valid

Source: Processed Data

MSME Performance (Z)

Statement Items	value_r_ Count	Value_r_ Table	Sig. (2-tailed)	Information
Z.1	.830	.195	.000	Valid
Z.2	.841	.195	.000	Valid
Z.3	.797	.195	.000	Valid
Z.4	.752	.195	.000	Valid
Z.5	.780	.195	.000	Valid
Z.6	.768	.195	.000	Valid
Z.7	.880	.195	.000	Valid

Source: Processed Data

Based on "the results of the validation test it was proven that the validity of all statement items used in this research instrument *corrected item-total correlation* was above .195 (rtable), thus, each statement item on this research variable was declared valid.

Reliability Test Results		
Item No	Alpha cronbach	Information
Financial Management(X2)	.766	RELIABLE
Financial Inclusion(X2)	.827	RELIABLE
HR Competency (Y)	.882	RELIABLE
MSME Performance(Z)	.859	RELIABLE

Source: Data processed by SPSS version 25

The results of the reliability test show that all variables, Financial Management (X1), Financial Inclusion (X2), HR Competence (Y) and MSME Performance (Z) are reliable, "because they have a cronbach alpha value" > .7 "so they can be used to process further data " .

a. Results of Data Analysis

Model 1 Regression Analysis

Based on the results of the analysis using the SPSS version 25 program, the regression results obtained between the variables Financial Management (X1) and Financial Inclusion (X2) on HR Competence (Y) are as follows

:

Model 1 Path Analysis Test Results						
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	.086	1,771		.049	,961
	Financial Management(X1)	0.348	.094	,873	13,606	,000
	Financial HR Capability (X2)	,396	.087	,512	4,544	,000

a. Dependent Variable: HR Competence (Y)

Source: SPSS Outputs

The coefficient table above shows the significance value of Financial Management (X1) on HR Competence (Y) is .000 < 0.05. which means that financial management has a significant positive effect on HR competence.

value of the Financial Inclusion variable (X2) on HR Competence (Y) is 0.000 < 0.005. Which means that Financial Inclusion (X2) has a significant positive effect on HR Competence (Y),

The results of the determination test in the Model Summary table show that the R square value is 0.408, which means that 40% of the variation in HR Competence (Y) can be explained by the variables Financial Management (X1) and Financial Inclusion (X2). This indicates that there are 60% other variations that affect HR competence but are not included in this study. As for the value of $e_1 = \sqrt{1 - .408} = 0,769$

Determination Test Results	
Summary models	

Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	,639 ^a	,408	,398	3,935

a. Predictors: (Constant), Financial Inclusion (X2); Financial Management(X 1) ,

Source: SPSS output 25

From the regression equation Model 1 it can be explained that:

1. If Financial Management increases by one percent, " then " HR Competence will increase by 0.873, assuming the other independent variables are of a fixed value.
2. If Financial Inclusion increases by one percent, HR Competence will increase by 0.512, assuming other independent variables have a fixed value.
3. HR competence is influenced by Financial Management and Financial Inclusion by "40% and the remaining 60% is influenced by other variables not examined in this study ".

b. Model Path Analysis 2

To find out how much influence the variables Financial Management (X1), Financial Inclusion (X2), and HR Competence (Y) have on MSME Performance (Z), it can be seen from the Model Summary table, where the R square value is 0.807 which means that the MSME Performance variable can be explained by the variables Financial Management (X1), Financial Inclusion (X2), and HR Competence (Y) of 80%. This shows that there are still 20% of other variables that affect MSME performance that are not included in this study. As for the value of $e_2 = \sqrt{1 - .807} = 0,439$

Summary models				
Model	R	R Square	Adjusted R Square	std. Error of the Estimate
1	,898 ^a	,807	,797	2,359

a. Predictors: (Constant), X1, X2, Y

Source: SPSS output 25

Furthermore, the results of testing the direct effect (*direct effect*) of each variable of Financial Management (X1), Financial Inclusion (X2), and HR Competence (Y) on the MSME Performance variable (Z),

Table of Partial Test Results						
Coefficients ^a						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	std. Error	Betas		
1	(Constant)	1.219	1.416		,860	,393
	Financial management	,644	,108	,619	5,979	,000
	Financial Inclusion	,215	,099	,463	2,172	,004
	HR Competence	,561	,100	,403	1,824	,003

a. Dependent Variable: UMKM Performance - (Z)

Source: statistical output

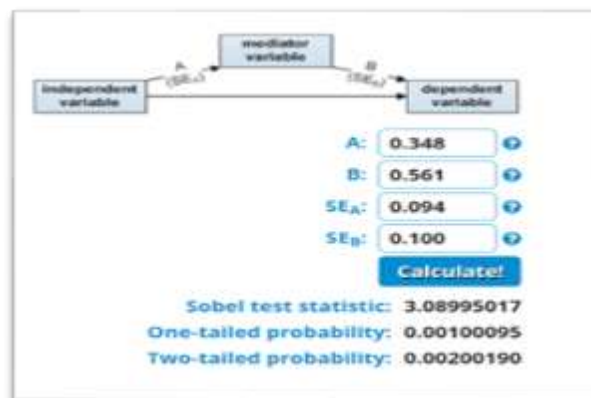
1. The significance value of Financial Management on MSME Performance (Z) is .000. which proves that Financial Management has a positive and significant effect on MSME Performance (Z)
2. value of the Financial Inclusion Variable (X2) is 0.04, which proves that Financial Inclusion has a direct and significant influence on MSME Performance
3. The significance value of the HR Competency Variable is 0.03 which proves that HR Competence has a positive and significant effect on the performance of MSMEs

Based on these equations, it can be interpreted that:

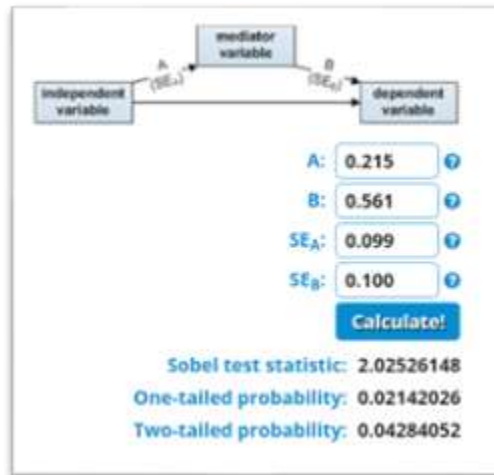
1. Performance (Z) is influenced by Financial Management (X1), Financial Inclusion (X2) and HR Competence (Y) simultaneously by 80%. This means that there are still 20% of other variables that affect MSME performance and are not included in this study.
2. The coefficient value of variable X1 to Z is 0.619. This means that if there is an addition of 1 percent of the Village Budget Policy, the MSME performance will increase by 0.619, or vice versa if there is a decrease of 1%, then the MSME performance will decrease by 0.619.
3. The path coefficient value of the Financial Inclusion variable on MSME Performance is 0.463, which means that if there is an increase of 1% in HR Finance capacity, MSME Performance will increase by 0.463. Conversely, if employee capabilities decrease by 1%, then MSME performance will decrease by 0.463.
4. The path coefficient value of the HR Competency variable on MSME Performance is 0.403, which means that if there is an increase in HR Competence by 1%, MSME Performance will increase by 0.403. On the other hand, if HR competence has decreased by 1%, MSME performance will have decreased by 0.403.

Indirect Influence Test Results with the Sobel Test

To analyze the indirect effect of variables X1 to Z through Y, it can be done by using *the calculation for the sobel test* based on the unstandardized coefficient and standard error values .



Based on the calculation results of the Sobel test calculator above, it can be seen that one-tailed probability and two-tailed probability are below 0.05, so it can be concluded that there is an influence of variable X1 through Y on variable Z. Or in other words, HR competency is able to mediate financial management on MSME performance.



To find out the indirect effect of variables X2 to Z through Y, it can be seen in the Sobel test calculator above, where one-tailed probability and two-tailed probability are below 0.05, meaning that there is an indirect effect of the financial inclusion variable through HR competency on MSME performance. In other words, HR competence is able to mediate the relationship between financial inclusion and MSME performance.

E. DISCUSSION

Financial management to MSME performance

The results of this study prove that financial management has an influence on the performance of MSMEs in Makassar City. According to Srinivasan and Hanssens (2009), good financial management has a positive impact on MSME performance. Proper financial management practices help MSMEs manage cash flow efficiently, manage debt and liabilities well, and make smart investment decisions. With effective financial management, MSMEs can achieve better financial stability, avoid financial crises, and adapt to market changes. In addition, good financial management also allows MSMEs to allocate resources optimally, increase productivity and increase business profitability.

Financial management to HR Competence

This study proves that HR competence is positively and significantly influenced by financial management and financial inclusion. Good financial management has a positive influence on HR competency in MSMEs. When MSMEs have effective financial management, including managing cash flow, investment, and the wise use of funds, they can better empower their human resources. Efficiently managed funds can be used to provide training and development for human resources. In addition, good financial management also provides financial stability for MSMEs, which in turn will increase HR motivation and loyalty.

Financial Inclusion to MSME performance

The results of this study indicate that there is an effect of Financial Inclusion on the performance of MSMEs in Makassar City. Financial inclusion has a positive influence on MSME performance. When MSMEs have wider access to formal financial services, such as banking, credit, and insurance, they can use financial resources more efficiently. With easier access to capital, MSMEs can invest in business expansion, procurement more advanced technology, and improve the quality of products or services. In addition, access to insurance services also helps protect MSMEs from financial risks and loss due to disasters or unexpected incidents .

HR Competence to MSME performance

This study proves that HR competence influences the performance of MSMEs in Makassar City. High HR competence contributes positively to the performance of MSMEs. Human resources who have the appropriate knowledge, skills and attitudes are able to better manage business operations. They can make smart decisions, face challenges better, and innovate to increase business competitiveness. Competent HR can also interact with customers and related parties more effectively, increase customer satisfaction, and expand business networks .

Financial inclusion on HR competence

This research has proven that there is an effect of financial inclusion on HR competence. Financial inclusion also has a positive influence on HR competencies in MSMEs. Access to formal financial services allows MSMEs to obtain financing more easily for HR training and development. In addition, MSMEs can use financial services to pay competitive salaries and benefits for employees , increasing HR satisfaction and retention. With access to insurance, HR also feels safer and protected, so they can focus on their tasks better.

F. CONCLUSION

The results of this study conclude that the results of the direct effect test **prove** that Financial Management and Financial Inclusion have an influence on HR Competence. Meanwhile, the performance of MSMEs is significantly influenced by financial management and financial inclusion. The results of the indirect effect test using the Sobel test prove that there is a significant positive effect on financial management and financial inclusion through HR competency on the performance of MSMEs in the city of Makassar.

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