
**FINANCIAL, TAX LITERACY, CAPITAL STRUCTURE,
PERFORMANCE AND COMPETITIVENESS OF MSMEs IN THE
DIGITAL TRANSFORMATION ERA**

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Abstract

Conclusion can be drawn that Micro, Small, and Medium Enterprises (MSMEs) were prioritized in every country's development agenda. This was due to the significant contributions of MSMEs to the economy and society. Besides driving economic growth, MSMEs played a crucial role in providing employment opportunities, particularly in the informal sector, and distributing income, especially in regional areas. The main challenges faced by MSMEs in Indonesia were internal constraints. Bank Indonesia states that internal constraints encompass capital, human resources, legal matters, and accountability issues. Additionally, external constraints identified by Bank Indonesia (2015) included the business climate, infrastructure, and resource access. To support the development and competitiveness of existing MSMEs, both the internal and external constraints should be addressed with the assistance of the government. The significance of financial literacy for MSMEs, as well as individuals, cannot be understated. It is a fundamental requirement for effective and efficient financial management. MSMEs in the culinary sector faced uncertainties in maintaining business continuity due to limited internal resources, challenges in customer communication, technology limitations, and intense competition from new market entrants. Therefore, for MSMEs, ensuring the sustainability of their businesses was of utmost importance. Several factors, including financial literacy, technological literacy, and innovation, played crucial roles in determining their success.

Keywords: *Financial, Tax Literacy, Capital Structure and Digital Transformation Era*

INTRODUCTION.

Micro, Small, and Medium Enterprises (MSMEs) played a vital role in Indonesia's regional and national economic system, significantly contributing to the country's economic development. The increasing contribution of MSMEs to Indonesia's Gross Domestic Product (GDP) highlighted their importance. Amidst the challenges posed by the pandemic and the need for transformation, the government remained committed to supporting MSMEs through the National Economic Recovery Program (PEN). The Coordinating Minister for the Economy,

Airlangga Hartarto, emphasized the allocation of IDR 95.87 trillion from the budget for the MSME Support cluster (Ministry of Finance, 2022).

Various characteristics, including financial and digital literacy, influenced the quality of MSME performance. Precise and accurate financial management contributes to business success (Setyanugraha & Hasibun, 2020). Poor financial literacy resulted in incorrect financial planning and difficulties achieving prosperity when individuals could no longer work (Hasibuan & Pratiwi, 2021). Poor financial literacy poses challenges in the present and impacts future society due to its adverse effects on financial behavior (Rosa et al., 2022). The digital economy also presents challenges and opportunities for MSMEs, enabling effective marketing of goods and services (Rosa et al., 2022). The level of digital awareness among MSMEs determined their readiness to utilize technology and digitize various business processes.

MSMEs in the culinary sector faced uncertainties in maintaining business continuity due to limited internal resources, challenges in customer communication, technological limitations, and fierce competition. Ensuring the sustainability of their businesses became crucial, with factors such as financial literacy, technological literacy, and innovation significantly influencing their success. Business continuity refers to maintaining, developing, and protecting resources and meeting business needs in response to economic conditions (Handyani, 2007). MSME owners and managers continuously tried to achieve business sustainability and growth, considering resilience and longevity (Wheelen & Hunger, 2012).

Financial literacy is fundamental in effective and efficient financial management for individuals and MSMEs. Various studies have emphasized its influence and importance in business sustainability, although contrasting findings exist (Ambarwati & Zuraida, 2020; Hamzah & Suhardi, 2020; Rahayu & Musdholifah, 2017; Erwin et al., 2021; Panggabean et al., 2018; Widayanti et al., 2017). Hence, this study aimed to analyze the impact of financial literacy on business continuity, considering the divergent outcomes of previous research (Budyastuti, 2021).

STUDY OF LITERATURE

Financial Literacy Financial literacy, as defined by the Financial Services Authority/OJK (2013: 24), refers to activities to increase people's knowledge, confidence, and skills in managing their finances. The aspects of financial literacy, as identified by Nababan and Sadalian in Budiono (2011: 11), include basic personal finance, financial management, credit and debt management, risk management, and savings and investment.

Benefits of Financial Literacy Financial literacy offers long-term benefits to individuals. Two primary benefits include improving literacy from being less literate to well-literate and increasing the use of financial services or products (Financial et al., 2013). Financial literacy enables individuals to manage their finances better and provides opportunities for a prosperous future. Additionally, financial literacy aids in decision-making regarding investments and savings.

Levels of Financial Literacy Based on a survey conducted by the Financial Services Authority (OJK, 2013), financial literacy can be categorized into four levels. Well-literate represents individuals with knowledge and confidence in financial service institutions. Sufficient literate represents individuals with knowledge and confidence in financial service products. Less literate refers to individuals with limited financial service institutions and product knowledge. Not literate denotes individuals without knowledge of financial service institutions or existing financial products and services.

Financial Literacy Indicators To determine a person's level of financial literacy, indicators or benchmarks are used. The Australian Securities and Investment Commission (in Yunikawati, 2016: 21) outlines several indicators, including knowledge of the value of goods and priority scales in one's life, budgeting and money management skills, credit management, understanding the importance of insurance and risk protection, fundamental knowledge of investing, retirement planning, the significance of shopping and comparing products, and the ability to recognize potential conflicts over priorities.

Capital Structure The definition of capital structure varies among experts. According to Riyanto (2010: 22), capital structure refers to permanent expenditures reflected in the balance between equity and long-term debt. Horne and John (2010: 232) define capital structure as the proportion of long-term permanent funding or capital represented by debt, preferred stock, and common stock equity. In summary, the capital structure represents equity and long-term debt composition in permanent financing.

Variables of Capital Structure The variables related to capital structure, which reflect the comparison between debt, equity, and assets, include a. Debt to Asset Ratio (DAR): This ratio indicates the extent to which a company uses debt to finance its total assets. It can be calculated as follows: $\text{Debt to Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}$ (Horne & John, 2012, p. 170). b. Debt to Equity Ratio (DER): This ratio showcases how much a company relies on debt funding compared to equity funding. It can be calculated as follows: $\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Shareholder Equity}}$ (Horne & John, 2012, p. 169).

Tax Literacy Tax literacy refers to an individual's ability to understand and access tax regulations and fulfill their tax obligations, including the awareness of reporting annual tax returns (SPT). Bornman and Wasserman (2018) define tax literacy as a dynamic development process that encompasses skills and self-confidence in recognizing the importance of taxes and the factors influencing tax compliance. Efforts to enhance tax literacy are crucial for fostering public awareness and compliance with tax obligations, and the Directorate General of Taxes (DGT) ensures that tax knowledge is disseminated among the Indonesian population.

Tax compliance represents taxpayers' behavior in fulfilling their obligations and exercising their tax rights. There are two types of tax compliance: formal compliance and material compliance. Complying with tax regulations and fulfilling tax obligations contribute to the development of a nation, as taxpayers reflect good behavior by adhering to established obligations and paying taxes according to the

provisions set forth by the country (Nurlaela, 2017). E-Filing and E-Billing are modern technology systems used for online tax processes in Indonesia. E-Filing is a software application that enables taxpayers to submit their Annual SPT reports through the Directorate General of Taxes (DGT) website or ASP. This online system, accessible at www.pajak.go.id, offers a fast and convenient way for Indonesian taxpayers to fulfill their tax obligations. The DGT Online system allows taxpayers to report their annual tax returns and make tax payments through the website <https://djponline.pajak.go.id>. This system can be accessed from anywhere, providing improved access to tax services.

The implementation of E-Filing aims to facilitate and expedite the tax reporting process, encouraging timely and accurate tax payments. To utilize the e-filing system, taxpayers must apply for an Electronic Filing Identification Number (EFIN) to the tax service or KP2KP office.

On the other hand, E-Billing is an online tax payment system that enables taxpayers to generate a billing code through the SSE Tax online application. The billing code serves as proof of payment when making tax payments. This code is issued through a billing system specific to each type of tax, allowing taxpayers to make payments efficiently without the need to queue.

To utilize E-Billing, taxpayers are typically required to register as service members. This registration enables taxpayers to access the application and request a billing code. By utilizing these online services, taxpayers can streamline their tax processes, making reporting and payments faster and more effective.

Performance MSMEs

Performance refers to a company's ability to achieve its established goals. When evaluating performance, it is essential to use metrics that measure achievement or success. In the case of Micro, Small, and Medium Enterprises (MSMEs), performing well in various areas such as finance, production, distribution, and marketing is crucial for their survival, growth, and overall success (Septiani & Wuryani, 2020).

Managing the company's finances effectively is critical for MSMEs to deliver quality performance. Additionally, successful MSMEs empower themselves through competitive advantages requiring quality human resources. In order to achieve this, being innovative and creative is necessary for designing successful marketing strategies that contribute to solid company performance and the development of MSMEs (Suindari & Juniariani, 2020).

By striving for solid performance, MSMEs can become a significant force in the national economy, contributing to its strength and overall growth (Kasendah et al., 2019). It is crucial for MSMEs to actively participate and substantially impact the economy, as their success plays a vital role in the overall economic landscape.

Digital Transformation

Digital transformation can be defined as utilizing digital technologies such as virtualization, mobile computing, and cloud computing and integrating systems within an organization to create new value and transform business processes, operational processes, and customer experiences. It involves utilizing existing digital capabilities and technologies to produce new outputs and provide new

experiences to consumers, such as convenient transactions, shopping, and communication.

The COVID-19 pandemic has been a significant driver of digital transformation. The pandemic has led to a physical disconnect and has required people to rely on digital media for work and learning. Working and studying from home has become the norm. However, it is not as straightforward to attribute the pandemic as the sole cause of digital transformation. Four main factors drive digital transformation: changes in regulations, changes in the competitive landscape, the shift to digital industries, and changes in consumer behavior and expectations. In the context of the pandemic, the regulation change has played a significant role. Governments have introduced new regulations that require digital or online interactions to ensure safety during the pandemic.

Before the pandemic, the Indonesian economy was already dominated by platform providers such as Gojek and Grab and online marketplaces like Tokopedia and Shopee. These platforms disrupted traditional industries and provided convenience to consumers. The emergence of these platforms has affected retailers and traditional businesses, prompting them to adapt quickly to the digital landscape.

The conveniences and positive experiences provided to consumers through these platforms have changed the competitive landscape and led to a shift from traditional to digital business forms. Digital transformation was already happening, but the pandemic has accelerated the process. The pandemic has expedited the ongoing digital transformation already being planned or implemented.

In summary, digital transformation is a process that leverages digital technologies to create new value, transform processes, and enhance customer experiences. While the COVID-19 pandemic has significantly accelerated digital transformation, it is essential to recognize that other factors, such as regulation changes and consumer behavior, also contribute to this process.

METHOD

This research method uses qualitative methods with a symbolic interactionism approach. Data collection techniques used were participant observation, in-depth interviews, and documentation. The analysis used in this research uses domain analysis, taxonomy, componential, and cultural themes, and to check the validity of the data is done utilizing a credibility test, transferability test, dependability test, confirmability or objectivity test (triangulation).

RESULTS AND DISCUSSION

Financial Literacy on MSME Performance

This study provides information that financial literacy has a positive and significant effect on the performance of MSMEs. Thus, studies to determine factors that can influence the performance of SMEs have frequently been conducted. Financial literacy continues to be among the factors investigated. Past studies have shown inconclusive evidence of the relationship between financial literacy and SME performance. Significant relationships have been demonstrated in some studies (e.g., Agyapong & Attram, 2019; Aribawa, 2016; Chamwada, 2015;

Cherugong, 2015; Dahmen & Rodriguez, 2014; Fernandes, 2015; Kimunduu et al., 2016; Muraga & John, 2015; Njoroge, 2013; Sabana, 2015; Salome & Memba, 2014; Usama & Yusoff, 2019). By contrast, other research (i.e., Bruhn & Zia, 2011; Eresia-Eke & Raath, 2013; Menike, 2018) shows that financial literacy has no relationship with or influence on SME performance. These findings prove that financial literacy can be trusted and can play an active role in efforts to improve MSME performance. In this case, if the financial literacy of MSMEs is increased, the performance of MSMEs will also increase. MSMEs perform better with higher financial literacy (Septiani & Wuryani, 2020). This study aligns with the findings of Kasendah et al. (2019); Iko et al. (2019). Financial literacy has a significant effect on MSME performance.

Capital Structure on MSME Performance

This study proves that digital literacy has a positive and significant effect on the performance of MSMEs. These findings indicate that business actors are not only familiar with digital media but also involve digital literacy in depth with daily activities, especially in supporting business activities that are owned, incl in promotional or marketing activities through digital media to provide profit for their business. Increasingly, business actors use social media to promote, and the more profit people will get (Zahro, 2019). This research is in line with the research findings of Amelia et al. (2022). Digital literacy has a significant effect on the performance of SMEs.

Role Literacy Finance to MSME Performance

The advancement of technology has led to the increasing diversification and availability of financial products and services across society, including the finance sector. Cash transactions have been replaced by online and digital transactions facilitated by financial institutions. People are becoming more aware of the functions of financial products and services. They utilize them in various financial transactions, such as money transfers, credit card purchases, digital wallet payments, QR code scanning, and accessing credit without collateral for business capital. There is also growing interested in financial products like health insurance, independent investment accounts, and futures deposits, indicating the increasing importance of understanding and responsibly utilizing these offerings.

Enhancing financial literacy skills and abilities is crucial as technology advances in the finance sector. The public's level of financial literacy should be higher to meet the demands of understanding financial products and services and how to utilize them effectively. Financial literacy encompasses individual budgeting, debt management, and evaluating the balance between credit products and investments. Although these skills may seem simple, they require knowledge of basic financial concepts, such as funding, investment, and asset management.

Finance plays a vital role in modern society, and a lack of financial literacy can negatively impact achieving financial success. Unfortunately, there are still groups in society, particularly in remote and rural areas, with low financial literacy levels and limited access to financial products and technology. This low level of financial literacy can trap individuals or even entire communities in a cycle of

unsustainable debt, leading to poor financial decision-making and a lack of long-term financial preparation.

When individuals become trapped in a never-ending cycle of debt, they often experience adverse consequences such as a high risk of defaulting on payments, poor credit scores, the sale of assets, and even bankruptcy. Many people must realize that accumulating debt can lead to increasingly complex situations. The level of financial literacy in the public directly impacts their ability to understand various aspects of finance. Good financial literacy can protect individuals from falling victim to fraudulent financial schemes, while poor financial literacy makes individuals more susceptible to financial fraud.

It is essential to recognize that financial literacy has broad implications for individuals and society. It empowers individuals to make informed financial decisions, protects them from financial pitfalls, and contributes to overall financial well-being. Enhancing financial literacy is crucial to navigating the complex and rapidly changing financial landscape driven by technological advancements.

Financial literacy is essential to increase public awareness and prepare for financial independence in the future. High financial literacy levels enable individuals to understand the importance of saving for the future and prioritize long-term financial security over excessive debt for immediate consumption. Individuals with high financial literacy tend to avoid excessive debt, which can lead to bankruptcy and asset foreclosure.

In contrast, individuals with low financial literacy are more susceptible to impulsive shopping and credit card debt. They often lack the necessary funds to pay off their monthly credit card debt, resulting in additional interest charges. Furthermore, they are less likely to invest and tend to ignore retirement planning, putting them at greater financial risk in the future.

Financial literacy has broader implications for the overall economy. When financial literacy increases, it contributes to a more robust and more competitive global economy. Financial literacy is crucial in making wise financial decisions.

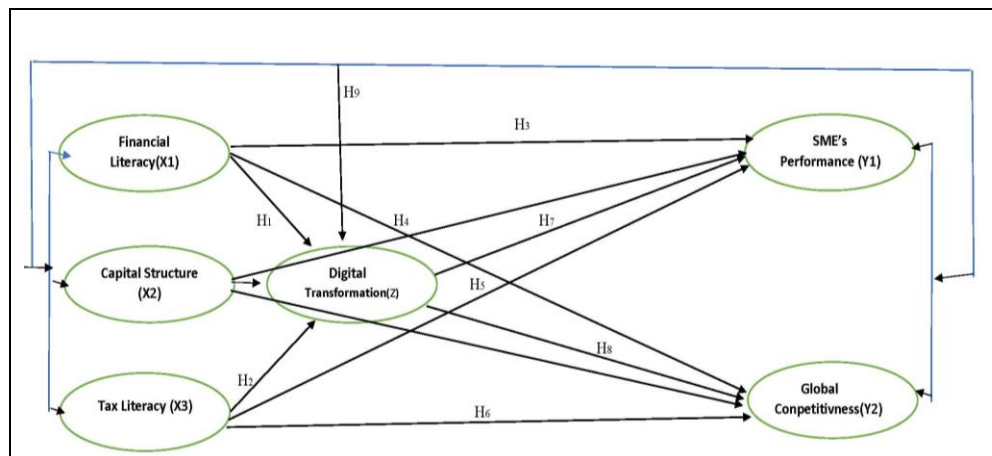
The burden of financial decision-making falls heavily on individuals in today's society. While pension planning was previously limited to civil servants, private employees now have access to pension funds managed by the Social Security Administration Agency (BPJS) or Taspen. However, many workers must know how to invest their pension funds effectively. With a wide range of complex financial products and services available, individuals must understand the advantages and disadvantages of each. The public needs to be able to make informed decisions and choose appropriate financial products that align with their needs. This will encourage saving and investing for future financial independence.

While the government has a role in improving societal well-being, it cannot bear the entire cost of living for the population. Government subsidies aim to alleviate some burdens and provide social guarantees to specific vulnerable groups. However, these guarantees are limited and may need to be increased to sustain a basic standard of living in the long term. Therefore, individuals must strive for financial independence and increase their financial literacy to meet their needs.

With longer life expectancy and the increasing financial demands of raising a family, individuals must be careful in managing their finances. The need for future financial security, including providing a decent life for children, motivates individuals to improve their financial literacy and enhance their abilities and skills in managing income and allocating resources wisely.

The financial landscape is dynamic and constantly changing. Global markets are becoming more competitive, and technological advancements, including e-commerce, are rapidly reshaping the financial markets. Those who lack financial literacy may struggle to adapt to these changes and suffer the consequences. Conversely, individuals who have developed financial literacy early on are better equipped to navigate financial challenges and maintain stability even during economic crises.

Figure 1. Framework Conceptual



THE ROLE OF FINANCIAL LITERACY, CAPITAL STRUCTURE, AND TAX LITERACY TO IMPROVE THE PERFORMANCE AND COMPETITIVENESS OF MSMEs IN THE DIGITAL TRANSFORMATION ERA

CONCLUSION

From the discussion in this paper, Micro, Small, and Medium Enterprises (MSMEs) are a priority for development in each country. MSMEs make significant contributions to the economy and society, including economic growth, employment in the informal sector, and income distribution, especially in regional areas. However, MSMEs face various internal and external constraints. Internal constraints for MSMEs in Indonesia include capital, human resources, law, and accountability issues. On the other hand, external constraints include the business climate, infrastructure, and resource access. The government needs to address internal and external constraints to support the growth and competitiveness of existing MSMEs.

Financial literacy is crucial for everyone, including MSMEs, as it enables effective and efficient financial management. In the culinary sector, MSMEs face uncertainty in maintaining business continuity due to limited internal resources, difficulties in

reaching customers, technological limitations, and fierce competition. Therefore, MSMEs need to prioritize the sustainability of their businesses. Factors such as financial literacy, technological literacy, and innovation play key roles in determining the success of MSMEs

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