

## Analysis of Optimizing MSME Profits Through Financial Management Competence In Tarakan City

Rahmi Nur Islami<sup>1)</sup>, Ferawati Usman<sup>2)</sup>, Mohammad Nur Utomo<sup>3)</sup>

<sup>1,2,3</sup> Fakultas Ekonomi, Universitas Borneo Tarakan

\*Email correspondence: [rahminurislami@borneo.ac.id](mailto:rahminurislami@borneo.ac.id)

### Abstract

*Purpose* his research aims to measure the extent of financial management competence possessed by MSME players, including Education and Training, Legal Compliance, Partnerships, and Networks, as well as the Application of Digital Technology in optimizing their profits. *Methodology* The research method used by researchers is quantitative. This research was conducted on 100 MSMEs in Tarakan City. Data collection was carried out using a structured questionnaire. The sampling technique used in this research was simple random sampling. The data analysis technique uses multiple linear regression analysis using the SmartPLS program. *Findings* The analysis results show that education and training have a significant positive impact on optimizing MSME profits. Apart from that, Legal Compliance also has a significant positive impact on optimizing MSME profits. Networking has a significant positive impact on optimizing MSME profits. Digitalization positively optimizes MSME profits, although the impact may not be as strong as other variables. *Originality* The development of MSMEs in Tarakan City was followed by various problems, including not yet optimal financial management, which resulted in the difficulty in achieving optimal profit. Financial management is a problem in MSMEs because MSME owners often ignore the importance of recording financial reports. Thus, financial management is essential to apply to MSMEs.

**Keywords:** MSME; Profit; Competence; Financial Management;

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### 1. INTRODUCTION

In an effort to build a people's economy, the President of the Republic of Indonesia has given directions to carry out the development of Upgraded MSMEs and Modernization of Cooperatives. The role of MSMEs is enormous in the growth of the Indonesian economy, with their number reaching 99% of all business units. The contribution of MSMEs to GDP also reached 60.5%, and labor absorption was 96.9% of the total national labor absorption.

Thus, it is common knowledge that Micro, Small, and Medium Enterprises (MSMEs) are one of the pillars of the economy in Indonesia. The City Government of Tarakan also felt it. According to the Mayor of Tarakan Khairul, MSMEs in Tarakan City grew extraordinarily rapidly in 2014-2019. In 2014, there were only around 4 thousand MSMEs, and in 2020, it will grow to 13 thousand. In the first semester

of 2022, there are around 22 thousand MSMEs in Tarakan City, and it continues to grow.

The development of MSMEs in Tarakan City was accompanied by various problems, including non-optimal financial management, which resulted in the difficulty of achieving optimal profits. Based on observations made by researchers on several MSMEs in Tarakan City, it can be seen that there are still many MSMEs who have yet to be able to manage their business correctly, so it is common for MSMEs to fail in their business. This failure is due to the low knowledge of MSME owners about business management. Business management that needs attention is management in the financial sector.

Financial management is a problem in MSMEs because MSME owners often need to pay more attention to recording financial reports. Thus, financial management is essential to apply to MSMEs. MSMEs

that have transparent and accurate financial management will positively impact the business. This positive impact of financial management is a critical factor in the success of MSMEs and can be used to optimize profits and maintain business sustainability.

Public awareness of entrepreneurship by taking advantage of existing opportunities must be followed by understanding and knowledge about the importance of managing a business well. The MSME community still needs to know the importance of good financial records based on applicable standards. The recording of financial transactions needed to be carried out correctly and several transactions that should have been recorded were not recorded. Many MSMEs have never prepared financial reports because they do not carry out proper financial records. Accounting records and financial reports are benchmarks for seeing business performance and knowing business conditions. As a result, managed MSMEs need to have optimal profits and quickly go out of business.

To improve the performance and sustainability of MSMEs, strategic efforts are needed, which include deepening the financial knowledge of MSME actors. This will enable them to manage better and be more accountable for their operations. MSME players must survive and be ready to compete with other MSME players at a time when MSMEs are proliferating by paying attention to their business performance. To create good performance, MSME players must know how to manage their business finances because financial management is an integral part of but is still a weakness for most MSMEs. Lack of knowledge regarding financial management makes MSME players unable to manage their business finances well, which will affect their business performance. (Suindari et al., 2020).

Having the ability to manage finances for MSMEs will encourage MSMEs to develop with correct management. The following are several approaches that can help overcome financial management problems in MSMEs: 1) Education and Training: Providing education and training focused on financial management to MSME owners can help increase their understanding of the importance of good financial records. This can be done through local training programs, seminars, or collaboration with local financial or educational institutions. 2) Application of Digital Technology: Utilizing digital technology, such as financial applications or simple

accounting software, can help MSMEs record financial transactions more easily and accurately. Digital solutions that are easy to use and affordable can help MSMEs with limited financial resources. 3) Partnerships and Networks: Building partnerships with financial professionals, such as accountants or financial consultants, can provide guidance and assistance in managing MSME finances. In addition, joining a business network or MSME association can provide access to resources, training, and helpful information in financial management. 4) Encourage Legal Compliance: Encouraging MSMEs to comply with local tax regulations and financial laws can help increase awareness of the importance of good financial records. The government can facilitate this process by providing guidance, incentive programs, or other resources to help MSMEs meet their obligations.

Financial education is an essential aspect of MSME financial management. MSMEs can increase their understanding of financial concepts, cash management, financial analysis, and financial planning through training, workshops, or financial education resources. This can help MSMEs make smarter financial decisions and optimize their performance. (Arianti & Azzahra, 2020).

Using digital financial applications or accounting software can help MSMEs manage and track their financial transactions more efficiently. Online accounting software, bookkeeping, or inventory management applications can help MSMEs monitor cash flow, manage bills and payments, and produce accurate financial reports. (Ramadhani & Trisnarningsih, 2022).

MSMEs often need help in obtaining traditional financing from financial institutions. However, the development of alternative financing, such as crowdfunding, peer-to-peer lending, and online lending platforms, has provided MSMEs with more comprehensive access to finance. This allows them to obtain additional funds for business development or working capital. (Dewanti et al., 2020).

The process of accounting records, ranging from transaction evidence to the preparation of financial reports, allows business owners to have adequate information for management decision-making, as a means of controlling and controlling finances, as evaluation material for business performance, and as information material for external parties (banks/other financial institutions). when the business requires additional funds for business operations. Most home-

based businesses are considered unbankable because they must meet this requirement. Finance to achieve business financial goals.(Anggraeni, 2016).

## **THEORETICAL FRAMEWORK AND EMPIRICAL STUDIES**

### **Profit Optimization**

Profit optimization is a concept in financial management that relates to the effort to maximize the profit or income obtained by a company or organization. The goal of profit optimization is to find strategies or policies that can generate the highest revenue with the lowest cost and risk (Rounaghi et al., 2021). Profit optimization can be done in various ways, such as by maximizing revenue, minimizing costs, or finding the optimal point between the two. Profit optimization can also be influenced by internal and external factors, such as market demand, competition, technology, regulation, and others. Profit optimization is one of the main goals of the company, especially in the short term. However, profit optimization does not always mean sacrificing other values, such as employee welfare, environment, or social responsibility. Profit optimization can also be done in a balanced and harmonious way, according to the business philosophy of each company.

Profit optimization is closely related to the concept of financial awareness, which includes the understanding and awareness of the financial aspects of an organization. Financial awareness is an important prerequisite in the effort to optimize profit. To optimize profit, managers and owners need to have a deep understanding of how revenue and costs affect the financial results of the company. They should be able to identify the most profitable sources of revenue and manage costs efficiently (Anthony & Reece, 2004). Financial awareness also involves the ability to plan and budget wisely. Managers should be able to allocate resources to various projects or activities that can generate maximum profit (Horngren et al., 2013). Financial awareness is also related to understanding working capital management. Managers must know how to manage cash, receivables, and inventory well to maintain company liquidity and prevent potential losses (Van Horne & Wachowicz, 2008).

### **The Influence of Education and Training on Financial Awareness**

An effective financial education program can enhance individuals' understanding of basic financial concepts, such as debt management, investment,

retirement planning, and risk management (Huston, 2010). In a study (Lusardi & Mitchell, 2014), it was found that participants who attended a financial education program were more likely to save money in a savings account and understand the basic principles of risk and return on investment. Education and training in finance can also help individuals develop practical skills, such as budgeting, making wise investment decisions, and understanding concepts such as interest and inflation (Hogarth & O'Donnell, 2001).

By understanding these skills, individuals can make better financial decisions in their daily lives. In addition, effective financial training can also improve individuals' financial literacy, which includes the ability to read and understand financial information related to financial products such as credit cards, loans, and bank accounts.(Fernandes et al., 2014). Financial education and training are not only relevant for individuals but also have significant implications in the context of organizations and businesses. Employees who understand the basic concepts of finance can help the company manage their financial resources more efficiently and understand the financial impact of business decisions. (Danes et al., 1999).

To achieve better financial awareness, it is important to acknowledge that education and training in finance have an important role in shaping individuals' understanding of personal finance and developing the skills needed to make wise financial decisions. Thus, education and training in finance can have a significant impact on the level of financial awareness of individuals and groups.

**H<sub>1</sub>:** Education and Training Influence Financial Awareness

### **The Influence of Legal Compliance on Financial Awareness**

Legal compliance plays a crucial role in shaping an individual's financial awareness. It encompasses adherence to financial regulations, tax laws, and accounting standards. Understanding and complying with these legal aspects are fundamental to maintaining financial health (Lusardi & Tufano, 2015). Legal compliance is essential for mitigating legal and financial risks. Individuals who are financially aware understand the consequences of non-compliance, such as penalties, fines, or legal actions. This awareness motivates them to ensure their

financial practices adhere to the law (Gavrilova et al., 2019).

Financial awareness also involves having the knowledge and resources to protect one's financial interests. This includes understanding contract terms, consumer protection laws, and legal rights related to financial products and services. Legal knowledge empowers individuals to make informed financial decisions and seek legal remedies when necessary (Brooks, 2018). Legal compliance is equally significant for organizations and businesses. It affects financial awareness at the organizational level, as compliance with financial regulations and reporting standards is vital for accurate financial statements. Organizations that prioritize legal compliance enhance their financial transparency and credibility (Barth et al., 2008).

**H<sub>2</sub>:** Legal Compliance Influences Financial Awareness

### **The Influence of Networking on Financial Awareness**

Networking, which involves building professional relationships and connections within the financial and business community, can significantly influence an individual's financial awareness. These connections provide access to valuable information, insights, and opportunities related to financial matters (Adler & Kwon, 2002). Networks offer a platform for knowledge exchange among professionals, including discussions on financial trends, investment opportunities, and best financial practices. Engaging in such conversations can enhance one's financial awareness (Coleman, 1988).

Networking provides opportunities to connect with financial experts, such as financial advisors, accountants, and investment professionals. These experts can offer guidance, advice, and financial education, contributing to improved financial awareness (Podolny & Baron, 1997). Joining professional organizations related to finance and investment provides access to a wealth of financial knowledge. These organizations often host events, seminars, and conferences that promote financial education and networking (Granovetter, 1973).

**H<sub>3</sub>:** Networking Influences Financial Awareness

### **The Influence of Digitalization on Financial Awareness**

Digitalization provides individuals with real-time access to financial data and market information.

Through financial websites, apps, and online platforms, individuals can monitor their investments, track expenses, and stay updated on financial news, enhancing their financial awareness (Drnevich & Croson, 2013). The availability of personal finance apps and software simplifies financial management for individuals. These tools offer budgeting, expense tracking, and investment analysis features, helping individuals make more informed financial decisions (Walsh & Lim, 2020).

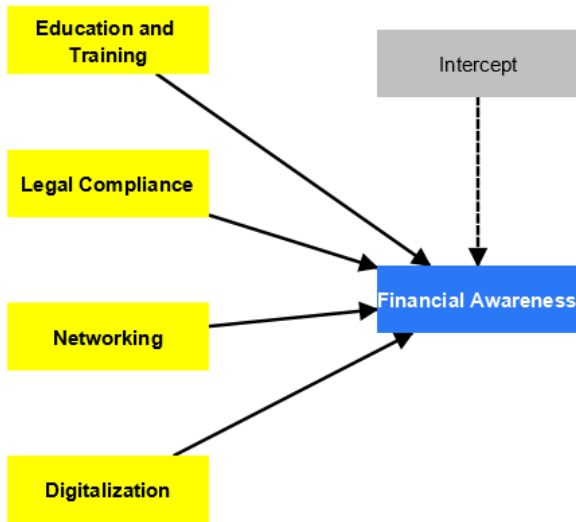
Digital investment platforms and robo-advisors provide accessible and automated investment solutions. They offer insights, portfolio recommendations, and risk assessments, empowering individuals to invest wisely and understand their investment choices (Cappiello, 2020). Digital banking and payment services allow individuals to manage their finances, pay bills, and transfer funds conveniently. The ease of online transactions promotes financial awareness by encouraging regular financial tracking (Aker & Fafchamps, 2015).

In summary, digitalization is a powerful driver of financial awareness. It offers real-time information, accessible tools, educational resources, and personalized insights, all of which empower individuals to make informed financial decisions and effectively manage their financial well-being.

**H<sub>4</sub>:** Digitalization Influences Financial Awareness

## **2. RESEARCH DESIGN AND METHOD**

The quantitative method is the approach used in this research. The research was conducted on SMEs in Tarakan City. The data collection method is done by questionnaire. The sampling technique was carried out using the simple random sampling method. This means that selection by taking sample members from a population is carried out randomly without paying attention to the strata within a population. Data collection was carried out using a structured questionnaire. One hundred questionnaires were distributed, and 100 were returned. So, the sample in this study amounted to 100 respondents. After the data was collected, the data was processed using the structural equation modeling method with the help of SmartPLS 4 software, presented in Figure 1.



**Figure 1.** Structural Model

The variables in this research consist of profit optimization and financial management competence. Measurement of research variables is shown in Table 1.

**Table 1.** Measurement of Variable

Variable	Indicator / Item	Major References
Profit Optimization	Financial Awareness	(Aribawa, 2016)
Financial Management Competency	<ul style="list-style-type: none"> <li>• Education and Training</li> <li>• Legal Compliance</li> <li>• Networking</li> <li>• Digitalization</li> </ul>	(Andreas, 2011)

### 3. DISCUSSION

This study reveals that Education and Training significantly impact optimizing MSME profits in Tarakan City. This means that MSMEs that have attended education and training programs related to financial management tend to achieve higher profits. These findings show that investing in financial education and training for MSME owners has great strategic value. These programs help MSME owners understand best practices in financial recording, budget planning, and making wise financial decisions. In this context, research by Karim strengthens this result by asserting that financial training can increase the knowledge and skills of MSME owners in financial management. (Karim et al., 2019)

Legal Compliance variable also has a significant positive impact on optimizing MSME profits. These results emphasize the importance of complying with tax regulations and financial laws in MSME financial management. The sustainability of MSME businesses

can be negatively affected if they do not comply with applicable legal regulations. Research by Delimatsis has underlined that violations of financial laws can threaten the financial stability of MSMEs. Therefore, complying with the law is a critical factor in maintaining the sustainability and growth of MSMEs. (Delimatsis, 2019)

The analysis in this research confirms that the Partnership and Network variables significantly positively impact optimizing MSME profits in Tarakan City. These results underscore the importance of building partnerships with financial professionals and having a solid business network for MSMEs. With strong partnerships and extensive networks, MSMEs can access valuable resources and information to support better financial management. This finding aligns with research by Shepherd and Patzelt, which shows that partnerships and business networks can significantly benefit the growth and success of MSMEs. (Shepherd & Patzelt, 2011)

The findings in this study indicate that the application of digital technology positively impacts optimizing MSME profits. However, the significance level is slightly lower than other variables, such as partnerships, networks, and legal compliance. In the digital era that continues to grow, the application of digital technology in the financial and operational records of MSMEs is becoming increasingly important. These results illustrate that MSMEs that apply digital technology in their financial management have a competitive advantage. Research by Brynjolfsson and McAfee shows that digital technology can improve operational efficiency, reduce errors in financial records, and increase accuracy in making financial decisions. (Brynjolfsson & McAfee, 2014)

### 4. CONCLUSION

This research firmly shows that financial education and training have a significant positive impact on optimizing MSME profits in Tarakan City. These results underscore the importance of investing in financial education and training for MSME owners. These programs help MSME owners understand best practices in financial recording, budget planning, and making wise financial decisions. Apart from that, the legal compliance variable also significantly positively impacts optimizing MSME profits.

This emphasizes the importance of compliance with tax regulations and financial laws in managing



MSME finances. Meanwhile, these findings also confirm that the Partnership and Network variables significantly positively impact optimizing MSME profits. This shows how important it is to build partnerships with financial professionals and have a strong business network for MSMEs. Finally, digital technology applications also positively contribute to optimizing MSME profits, although the significance level is slightly lower compared to other variables. In the digital era that continues to develop, digital technology has become an essential tool in recording the finances and operations of MSMEs.

Based on the findings in this study, we advise MSME Entrepreneurs to actively seek opportunities to build partnerships and network with financial professionals and other business owners. These partnerships can open the door to valuable resources and information. In addition, MSME Owners can consider investing in digital technology according to the size of their business. This can improve operational efficiency and accuracy in financial management.

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