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The Influence of Financial Literacy on the Financial Performance of UMKM in Makassar City

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A R T I C L E I N F O

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A B S T R A C T

This study aims to analyze the influence of financial literacy on the financial performance of Micro, Small, and Medium Enterprises (UMKM) in Makassar City. The study employs a quantitative approach using a survey method, with a planned sample size of 400 MSME owners drawn from a population of 211,496 business units. Data analysis was conducted using descriptive statistics and simple linear regression. Based on the data analysis, a regression coefficient of 0.652 was obtained, with a significance value of 0.001, indicating a positive and significant influence. The coefficient of determination (R^2) of 0.384 suggests that financial literacy accounts for 38.4% of the variation in UMKM financial performance, while the remaining 61.6% is explained by factors outside the research model. These findings require verification using data from actual respondents.

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INTRODUCTION

Micro, Small, and Medium Enterprises (UMKM) play a strategic role in fostering regional economic growth by creating jobs and boosting local economic activity. In the city of Makassar, UMKM serve as a key driver of the local economy. Data from the Makassar City Office of Cooperatives and SMEs (2025) indicates that micro, small, and medium enterprises employ 31,695, 901, and 495 individuals, respectively—a total workforce of 33,091. Given this significant contribution, enhancing the performance and sustainability of MSMEs has become a crucial aspect of regional economic development.

However, the contribution of UMKM is not yet fully matched by optimal financial management. UMKM owners continue to face challenges such as inadequate financial record-keeping, the commingling of personal and business finances, difficulties in cost control, and issues with working capital planning. Indriana et al. (2024) note that financial management among some UMKM in Makassar City remains rudimentary, with limitations in the preparation of financial statements. Such conditions may hinder business owners from effectively evaluating profits, controlling expenditures, and making sound financial decisions.

One factor believed to play a role in addressing these issues is financial literacy. The Financial Services Authority (OJK, 2024) explains that financial literacy encompasses the knowledge, skills, and confidence that influence attitudes and behaviors regarding decision-making and financial management. For UMKM (micro, small, and medium enterprise) owners, financial literacy aids in understanding revenue, costs, profit, capital, and financing, while also supporting financial planning and record-keeping. Sudirman and Nurfadilah (2024) found that the levels of basic and advanced financial literacy among micro and small business owners in Makassar City fall into the intermediate category, suggesting that enhancing financial literacy remains relevant for supporting business development.

Several previous studies indicate that financial literacy has the potential to improve the performance of UMKM (micro, small, and medium enterprises). Aribawa (2016) found that financial literacy influences the performance and sustainability of UMKM. Similarly, Rusnawati et al. (2022) and Mufid et al. (2023) reported a positive and significant impact of financial literacy on the financial performance of UMKM—or small businesses—in the city of Makassar. Nevertheless, research findings remain inconsistent. Fitria et al. (2021) discovered that financial literacy does not affect UMKM performance, whereas financial attitude has a positive impact. These divergent findings point to a research gap that warrants further investigation, particularly within the context of UMKM in the city of Makassar.

Based on these phenomena and research gaps, this study aims to analyze the level of financial literacy, the level of financial performance, and the influence of financial literacy on the financial performance of UMKM (Micro, Small, and Medium Enterprises) in Makassar City. This research is expected to provide empirical evidence regarding the role of financial literacy in supporting business performance, while also enriching the study of financial management for

UMKM. Furthermore, the findings are intended to serve as a reference for business owners and the local government in designing more effective financial education and assistance programs, ultimately enhancing the competitiveness and sustainability of UMKM.

LITERATURE REVIEW

Micro, Small, and Medium Enterprises (UMKM)

Micro, Small, and Medium Enterprises (UMKM) represent a business category that plays a vital role in supporting the economic activities of the community. UMKM function not only as business units that produce goods and services but also as sources of income and employment (Aribawa, 2016). In their operations, UMKM face various challenges, including limited capital, managerial capacity, marketing constraints, technological adoption issues, and financial management difficulties. Consequently, the success of an UMKM is determined not merely by its ability to produce and sell products, but also by the business owner's capacity to manage available resources effectively (Kasmir, 2019).

One crucial aspect of managing UMKM (Micro, Small, and Medium Enterprises) is financial management. UMKM owners need to understand their business's financial situation to determine their revenue, expenses, profit, capital requirements, and the business's capacity to meet its obligations. Effective financial management also assists business owners in making decisions regarding business development and the utilization of funding sources (Kasmir, 2019). Furthermore, proper financial recording and evaluation can help MSME owners assess the state of their business and plan for their financial needs in a more focused manner.

In this context, the financial capabilities of UMKM (micro, small, and medium enterprise) owners are a crucial factor that can influence the sustainability and performance of their businesses. One element linked to these capabilities is financial literacy. The Financial Services Authority (OJK, 2024) explains that financial literacy encompasses the knowledge, skills, and confidence that shape attitudes and behaviors regarding decision-making and financial management. Research by Aribawa (2016) further indicates that financial literacy plays a role in the performance and sustainability of UMKM. Consequently, financial literacy is a relevant subject for study in relation to improving the financial performance of UMKM.

Financial Literacy

Financial literacy refers to an individual's ability to understand, manage, and utilize financial information as a basis for making financial decisions. It encompasses not only one's grasp of financial concepts but also the capacity to apply that knowledge to one's behavior and decision-making processes (Lusardi & Mitchell, 2014).

In the context of UMKM (Micro, Small, and Medium Enterprises), financial literacy has a broader scope, as business owners must manage both their personal and business finances. UMKM owners need to understand how to manage business revenue, determine costs, calculate profits, handle working capital,

utilize financing, and engage in financial planning. By possessing these skills, business owners are expected to be better equipped to minimize errors in their financial decision-making (Aribawa, 2016).

According to the Financial Services Authority (OJK, 2024), financial literacy encompasses the knowledge, skills, and confidence that influence an individual's attitudes and behaviors, ultimately improving the quality of their financial decision-making and management. This concept implies that financial literacy extends beyond mere knowledge; it must also be reflected in one's practical ability and behavior regarding financial management.

In the context of research on UMKM (Micro, Small, and Medium Enterprises), financial literacy is crucial because many business owners still face limitations in recording and managing their finances. Such conditions can make it difficult for them to ascertain their true financial standing—including actual profit levels, capital requirements, and the capacity to meet financial obligations. Research by Aribawa (2016) indicates that financial literacy is linked to the performance and sustainability of UMKM. Consequently, enhancing financial literacy can serve as a strategic effort to strengthen the ability of UMKM owners to manage their finances and support the performance of their businesses.

Research by Sudirman and Nurfadilah (2024) on micro and small business owners in the city of Makassar indicates that both their basic and advanced financial literacy levels fall into the intermediate category. These findings suggest that there is still room for improvement in the financial literacy of micro and small business owners in Makassar.

Accordingly, in this study, financial literacy is understood as the ability of micro, small, and medium enterprise (UMKM) owners to comprehend and apply financial knowledge in managing their business's financial activities and making sound financial decisions.

Dimensions of Financial Literacy

1. Financial Knowledge

Financial knowledge refers to an individual's understanding of fundamental concepts related to finance. For UMKM (micro, small, and medium enterprise) owners, this knowledge encompasses an understanding of revenue, costs, profit, capital, debt, interest, savings, investments, and financial planning. Financial knowledge serves as a foundation for business owners to comprehend their financial situation. For instance, a business owner who can distinguish between revenue and profit will be better able to determine whether an increase in sales actually translates into an increase in profit. Research by Nurlaela et al. (2023) on UMKM indicates that financial literacy is linked to the management of business finances.

2. Financial Skills

Financial skills refer to a business owner's ability to apply financial knowledge to their business activities. These skills are demonstrated through the capacity to record transactions, prepare budgets, control expenditures, manage cash flow, calculate profits, and conduct financial evaluations (Lusardi & Mitchell, 2014). Possessing financial knowledge does not automatically guarantee sound financial management if it is not accompanied by the ability to

put that knowledge into practice. Therefore, such skills constitute a crucial component of financial literacy, as they reflect a business owner's tangible ability to manage their financial resources (Financial Services Authority [OJK], 2024).

3. *Financial Attitude*

Financial attitude refers to an individual's perspective or tendency regarding how they handle financial resources. In the context of UMKM (micro, small, and medium enterprises), financial attitude is reflected in the level of caution exercised when using business funds, an orientation toward financial planning, discipline in controlling expenditures, and the careful consideration of risks before making decisions (Herdjiono & Damanik, 2016). Financial attitude is significant because business decisions are determined not only by knowledge but also by how business owners perceive and manage their financial resources. Research by Fitria et al. (2021) further indicates that financial attitude has a positive impact on MSME performance; therefore, a sound approach to financial management has the potential to support both the management of the business and the achievement of its performance goals.

4. *Financial Behavior*

Financial behavior refers to the concrete actions taken by business owners in managing financial resources. Such behaviors include recording transactions, creating financial plans, evaluating business performance, separating personal funds from business funds, saving a portion of profits, and utilizing debt in a measured manner (Herdjiono & Damanik, 2016). In the context of UMKM (Micro, Small, and Medium Enterprises), sound financial behavior helps business owners control expenses, maintain cash flow, and make more informed financial decisions. Research by Rusnawati et al. (2022) also examines the link between financial behavior and the financial performance of UMKM in the city of Makassar. Thus, financial literacy can be understood as a concept that encompasses both the knowledge and the practical application of that knowledge in financial management (Lusardi & Mitchell, 2014).

Financial Performance of UMKM

Financial performance is an indication of a business's ability to manage its financial resources to achieve its objectives. It reflects the state of a business in terms of generating revenue and profit, controlling costs, managing assets, and meeting financial obligations.

According to Kasmir (2019), financial information can be used to assess a company's condition and performance through various financial metrics. In the context of UMKM (Micro, Small, and Medium Enterprises), performance measurement must take into account the specific characteristics of the business, as not all UMKM maintain comprehensive financial statements like large-scale corporations.

The financial performance of an UMKM can be evaluated based on changes in sales, profit, cost efficiency, cash flow management, and the ability to meet financial obligations. Business owners who are capable of managing resources effectively have a greater opportunity to improve business outcomes and ensure long-term sustainability.

Financial performance also serves as a key metric for evaluating the success of business operations. An increase in sales does not necessarily signify improved performance if it is accompanied by an even greater rise in costs. Therefore, performance assessment must consider the interrelationships between revenue, costs, profit, assets, and liabilities.

Financial Performance Indicators for UMKM

1. *Sales Growth*

Sales growth reflects the ability of UMKM to increase their sales value from one period to the next. An increase in sales may indicate market expansion, a growing customer base, or the success of marketing strategies. Nevertheless, sales growth should be considered alongside other financial indicators, as an increase in turnover does not necessarily translate into higher profits.

2. *Profit Growth*

Profit growth reflects a business's ability to generate profit and increase it over time. Profit serves as a key indicator, representing the difference between the revenue earned and the costs incurred. UMKM owners with strong financial management skills are expected to be able to control costs, ensuring that any rise in revenue contributes to an increase in profit.

3. *Cost Efficiency*

Cost efficiency reflects a business owner's ability to utilize resources optimally. This can be achieved by controlling costs related to raw materials, labor, operations, marketing, and other expenses. For UMKM, cost control is particularly crucial; given their limited resources, any error in the allocation of funds can directly impact business profitability.

4. *Cash Flow Management*

Cash flow describes the inflows and outflows of cash within business activities. Effective cash flow management enables UMKM to meet their operational requirements in a timely manner. Business owners who understand their cash flow situation are better positioned to determine when to make payments, assess working capital needs, and evaluate whether the business has sufficient funds for expansion.

5. *Ability to Fulfill Obligations*

The ability to meet obligations reflects a business's capacity to pay what it owes to other parties, such as suppliers, financial institutions, or others. This ability serves as an indicator of a business's financial health, as an inability to fulfill obligations can hinder operational activities and lead to financial problems.

6. *The Relationship Between Financial Literacy and the Financial Performance of UMKM*

Conceptually, financial literacy is linked to financial performance, as the ability to manage finances helps UMKM owners make more informed decisions. Business owners with a solid understanding of finance are better equipped to create plans, maintain records, control costs, manage working capital, and determine how to utilize sources of funding.

Financial literacy also enables business owners to grasp the consequences of each financial decision. For instance, the decision to take out a loan requires careful consideration of one's capacity to make installment payments and cover

interest costs. Similarly, the decision to invest necessitates an assessment of capital requirements and the business's ability to generate cash flow.

The research by Aribawa (2016) indicates that financial literacy influences the performance and sustainability of UMKM in Central Java. These findings provide an empirical basis suggesting that financial literacy can be a factor that supports business performance.

A study by Mufid et al. (2023), which specifically examined small businesses in the city of Makassar, also found that financial literacy has a positive and significant impact on the financial performance of these businesses.

However, previous research has not yielded entirely consistent results. Fitria et al. (2021) found that financial literacy does not affect UMKM performance, whereas financial attitude has a positive impact on performance. These divergent results suggest that the relationship between financial literacy and UMKM performance remains a relevant subject for further investigation.

In the context of Makassar City, research by Sudirman and Nurfadilah (2024) indicates that the level of financial literacy among UMKM (micro, small, and medium enterprise) owners remains in the moderate category. This condition is significant in relation to UMKM financial performance, as suboptimal financial literacy may hinder business owners from managing their finances effectively.

Based on this, it can be argued that the better UMKM owners are at understanding and applying financial concepts, the greater their capacity to manage their finances effectively. Such management is, in turn, expected to support improvements in sales, profits, cost efficiency, cash flow, and the ability to meet financial obligations.

Previous Research

Table 1: Previous researchers

No.	Researcher	Object	Research result
1	Aribawa (2016)	UMKM Central Java	Financial literacy influences the performance and sustainability of MSMEs.
2	Fitria, Soejono, & Tyra (2021)	UMKM Palembang	Financial literacy has no effect on the performance of MSMEs, whereas financial attitude has a positive effect.
3	Rusnawati, Rusdi, & Saharuddin (2022)	UMKM Makassar City	Financial literacy, financial behavior, and financial attitudes are examined in relation to the financial performance of MSMEs.
4	Mufid et al. (2023)	Small businesses in Makassar City	Financial literacy has a positive and significant impact on the financial performance of a business.
5	Sudirman & Nurfadilah (2024)	UMKM Makassar City	The basic and advanced financial literacy of MSME operators falls into the intermediate category.

Source: Processed by the researcher (2026)

Conceptual Framework

Based on the theoretical framework and the results of previous studies, this research positions financial literacy as the independent variable (X) and the financial performance of UMKM as the dependent variable (Y). Conceptually, the relationship between these two variables can be illustrated as follows:

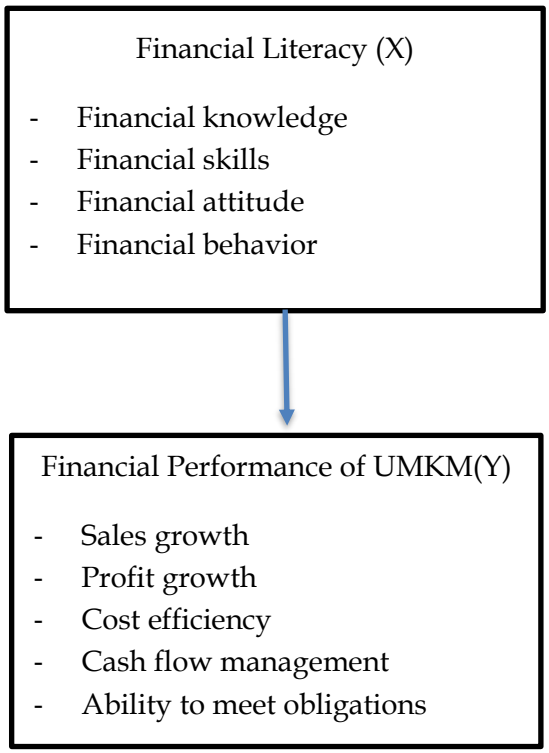


Figure 1. Conceptual Framework Chart

Hypothesis

Based on the theoretical framework and the results of previous research, the research hypothesis is formulated as follows:

H_1: Financial literacy has a positive and significant effect on the financial performance of UMKM in Makassar City.

METHODOLOGY

Research Design

This study employs a quantitative approach and is classified as associative research. A quantitative approach was chosen because the study aims to measure and test the influence of financial literacy on the financial performance of Micro, Small, and Medium Enterprises (UMKM) in Makassar City, based on numerical data obtained from respondents. Associative research is used to examine the relationship between the independent and dependent variables through statistical testing.

Population and Sample

Population

The population for this study consists of all UMKM (Micro, Small, and Medium Enterprises) operating in the city of Makassar. The population figure

used in this study is based on the latest official data from the Makassar City Office of Cooperatives and SMEs. According to data from the Integrated Business Service Center (PLUT) and the Office of Cooperatives and SMEs, there are 211,496 UMKM units in the city of Makassar.

Sample

A sample is a subset of a population selected to represent the characteristics of the research population. The sampling technique employed is purposive sampling, which involves selecting respondents based on criteria aligned with the research objectives. The criteria for respondents are as follows:

a. Owners or managers of UMKM (Micro, Small, and Medium Enterprises) that are actively operating in the city of Makassar;
b. The business has been in operation for at least one year, ensuring that the respondent has experience in managing financial activities;
c. The respondent is directly involved in the business's financial decision-making; and
d. The respondent is willing to complete the questionnaire in its entirety.

Sample calculation uses the Slovin formula with a 5% margin of error, as follows:

$$n = \frac{N}{1 + N(e)^2}$$

Information:
(n) = sample size
(N) = total population, namely 211,496 units
(e) = an error rate of 5% or 0.05

The calculation is as follows:

$$n = \frac{211.496}{1 + 211.496(0{,}05)^2}$$

$$n = \frac{211.496}{529{,}74} = 399{,}22$$

Thus, the sample size is rounded up to 400 UMKM units.

Operationalization of Variables and Indicators

1. Financial Literacy (X) is the ability to understand and apply financial knowledge to make decisions and manage a business. Indicators:
   a. Financial knowledge: Understanding of revenue, costs, profit, capital, debt, interest, and risk.
   b. Financial skills: Preparing budgets, calculating costs/profits, recording transactions, and managing cash flow.

c. Financial attitude: Discipline, planning, prudence in the use of funds, and consideration of risks.
d. Financial behavior: Consistent record-keeping, separating personal and business finances, financial evaluation, and debt management.

2. Financial Performance of UMKM (Y) refers to the perception of a business's financial achievements over a specific period, compared to previous periods or established targets. Indicators include:
   a. Sales growth: Changes in sales or turnover;
   b. Profit growth: Changes in business earnings;
   c. Cost efficiency: The ability to control operational costs;
   d. Cash flow management: The adequacy of cash to meet operational needs, as well as the management of receipts and expenditures.
   e. Ability to meet obligations: The capacity to make timely payments to suppliers, employees, or financial institutions.

   Perception statements can be measured using a five-point Likert scale:

   1 = strongly disagree
   2 = disagree
   3 = neutral
   4 = agree
   5 = strongly agree

Data Collection Methods

1. Questionnaire: Primary data is obtained directly from respondents via a questionnaire. The questionnaire contains statements regarding the financial literacy and financial performance of UMKM (Micro, Small, and Medium Enterprises), as well as questions concerning the characteristics of the respondents and their businesses—such as the type of business, duration of operation, business scale, and the respondent's role in financial management. The questionnaire may be administered in person or through an online form, with care taken to ensure that respondents meet the research criteria.
2. Documentation: Secondary data is gathered from documents, reports, scientific publications, research methodology textbooks, and relevant official government sources. Data from the Department of Cooperatives and SMEs of Makassar City can be used to describe the UMKM population, while journal articles and books serve as the basis for formulating conceptual definitions, variable indicators, and the development of hypotheses.

Data Analysis Methods

1. *Descriptive Statistical Analysis*
   Descriptive statistical analysis is used to describe the characteristics of respondents, the characteristics of the businesses, and the distribution of responses for each variable indicator. The results can be presented in the form of frequencies, percentages, mean values, and standard deviations.
2. *Instrument Quality Testing*
   Validity testing is conducted to assess whether the questionnaire items are capable of measuring the intended concepts. Validity can be examined through corrected item-total correlations or other procedures appropriate for

the specific type of instrument. Reliability testing is used to assess the internal consistency of items within a single construct—for instance, by using Cronbach's alpha coefficient. Decisions regarding validity and reliability must be based on explicitly stated methodological criteria.

3. *Regression Assumption Testing*
   Before interpreting a simple linear regression, the researcher must examine the relevant assumptions—specifically the linearity of the relationship, the normality of residuals, homoscedasticity, and the presence of influential outliers. Multicollinearity is not a primary concern in a regression model with only one independent variable. If these assumptions are not met, the researcher should consider using robust estimation or an appropriate alternative analytical method.
4. *Simple Linear Regression Analysis*
   Simple linear regression is used to examine the effect of financial literacy (X) on the financial performance of UMKM (Y). The equation model employed is:

$$\mathbf{Y = \alpha + \beta X + \varepsilon}$$

   Information:
   Y = financial performance of UMKM
   α = constant
   β = financial literacy regression coefficient
   X = financial literacy
   ε = error or other factors outside the model
   The coefficient β indicates the direction and magnitude of the average change in Y associated with a one-unit change in X within the model.
5. *Hypothesis Testing (t-test)*
   The t-test is used to determine whether the regression coefficient for financial literacy differs significantly from zero. The test is conducted at a predetermined significance level, typically 0.05. If the significance value is <0.05 and the regression coefficient is positive, the results support the hypothesis that financial literacy has a positive effect on the financial performance of UMKM. If the significance value is ≥ 0.05, the hypothesis does not receive statistical support at that significance level.
6. *Coefficient of Determination (R^2)*
   The coefficient of determination (R^2) is used to determine the proportion of the variation in the financial performance of UMKM that can be explained by financial literacy within the model. The R^2 value ranges between 0 and 1.A higher value indicates that the model explains a larger proportion of the variation; however, this does not in itself prove causality, nor does it imply that the model has incorporated all factors that influence financial performance.

RESEARCH RESULT

Respondent Profile

The demographic characteristics of the respondents in the city of Makassar are summarized in the following table:

Table 2. Respondent Characteristics

Characteristics	Category	Frequency	Percentage
Gender	Man	176	44,0%
	Woman	224	56,0%
Duration of business	1–3 years	104	26,0%
	4–6 years	148	37,0%
	More than 6 years	148	37,0%
Business category	Micro	300	75,0%
	Small	84	21,0%
	Medium	16	4,0%

Source: data processed by the researcher (2026)

Based on the characteristics of the 400 respondents, 224 (56%) are female and 176 (44%) are male. In terms of business duration, the majority of respondents have been operating their businesses for 4–6 years or for more than 6 years, with each group accounting for 148 individuals (37%). Regarding business scale, the sample is dominated by micro-enterprises (300 respondents, or 75%), followed by small enterprises (84 respondents, or 21%) and medium-sized enterprises (16 respondents, or 4%). These data indicate that the sample consists primarily of micro-enterprise owners with more than three years of business experience.

Descriptive Statistical Analysis

Descriptive statistical analysis is used to provide an overview of variables based on their minimum and maximum values, mean, and standard deviation.

Table 3. Results of Statistical Analysis

Variable	N	Minimum	Maximum	Average	Standard deviation
Financial literacy (X)	400	2,25	5,00	3,78	0,56
Financial performance UMKM (Y)	400	2,20	5,00	3,71	0,59

Source: data processed by the researcher (2026)

Based on the results of the descriptive statistical analysis, the financial literacy variable has a mean value of 3.78 with a standard deviation of 0.56, while the financial performance variable has a mean value of 3.71 with a standard deviation of 0.59. These results indicate that the levels of financial literacy and financial performance of UMKM in the simulation data fall into a relatively good category. The fact that the standard deviation is smaller than the mean value suggests that the data dispersion is relatively well-contained.

Instrument Quality Testing

1. Validity Test

Validity testing is used to examine whether questionnaire items measure the intended construct. The following table presents the results of the validity test:

Table 4. Validity Test Results

Variable	Item-total correlation range	Conclusion
Financial literacy (X)	0,48–0,76	All items are valid
Financial performance UMKM (Y)	0,45–0,79	All items are valid

Source: data processed by the researcher (2026)

Based on the validity test results, all statement items for the financial literacy and financial performance variables have item-total correlation values ranging from 0.45 to 0.79. These values indicate that all statement items meet the validity criteria, making them suitable for use as research instruments.

2. Reliability Test

Reliability testing is used to assess the internal consistency of the items within each construct. The following table presents the results of the Cronbach's alpha coefficient test:

Table 5. Reliability Test Results

Variable	*Cronbach's alpha*	Conclusion
Financial literacy (X)	0,86	Reliable
Financial performance UMKM (Y)	0,88	Reliable

Source: data processed by the researcher (2026)

Based on the reliability test results, the financial literacy variable has a Cronbach's Alpha value of 0.86, while the financial performance variable has a value of 0.88. Both values are greater than 0.70, indicating that the research instruments are reliable and possess good internal consistency.

Regression Assumption Testing

Before interpreting the regression, the researcher examines the relevant assumptions, such as the linearity of the relationship, the normality of residuals, and homoscedasticity. The following table presents the results of the regression assumption tests:

Table 6. Results of Regression Assumption Tests

Testing	Results	Interpretation
Normality of residuals	p = 0,087	No deviation is indicated at α = 0.05

Heteroskedasticity (Glejser)	p = 0,214	There is no indication of heteroskedasticity at α = 0.05
Deviation from linearity	p = 0,126	Adequate relationship for a linear model

Source: data processed by the researcher (2026)

Based on the regression assumption test results, the significance value for the normality test is 0.087, and for the heteroscedasticity test, it is 0.214—both of which are greater than 0.05. Meanwhile, the linearity test shows a significance value of 0.126. These results indicate that the data meet the assumption of normality, show no signs of heteroscedasticity, and exhibit a linear relationship.

Simple Linear Regression Analysis

Simple linear regression is used to examine the effect of financial literacy (X) on the financial performance of UMKM (Y). The regression equation is:

$$\mathbf{Y = 1{,}245 + 0{,}652X}$$

Table 7. Results of Simple Linear Regression Analysis

Variable	Coefficient B	Std. Error	t	Sig.
Constant	1,245	0,156	7,98	< 0,001
Financial literacy (X)	0,652	0,041	15,80	< 0,001

Source: data processed by the researcher (2026)

Based on the results of the simple linear regression analysis, the regression equation obtained is Y = 1.245 + 0.652X. A regression coefficient of 0.652 indicates that financial literacy has a positive effect on the financial performance of MSMEs. This means that for every one-unit increase in financial literacy, there is a corresponding 0.652-unit increase in financial performance, assuming other factors remain constant. A significance value of 0.001 ($p < 0.05$) indicates that this effect is significant.

Coefficient of Determination

The coefficient of determination is used to determine the extent to which the financial literacy variable can explain the variation in the financial performance of UMKM in Makassar City. The results of the coefficient of determination test are presented below:

Table 8. Results of the Coefficient of Determination (R^2) Test

R	R^2	Adjusted R^2	Std. Error of Estimate
0,620	0,384	0,382	0,464

Source: data processed by the researcher (2026)

Based on the coefficient of determination test results, an R^2 value of 0.384—or 38.4%—was obtained. This indicates that financial literacy accounts for 38.4%

of the variation in the financial performance of UMKM, while the remaining 61.6% is influenced by factors outside the research model.

Hypothesis Testing

The research hypothesis states that financial literacy has a positive and significant effect on the financial performance of UMKM in the city of Makassar. The criteria used for this assessment are a positive regression coefficient and a significance value of < 0.05. The results of the hypothesis test are presented below:

Table 9. Hypothesis Test Results

Hypothesis	Coefficient B	Significance
H_1: Financial literacy has a positive impact on the financial performance of UMKM.	0,652	< 0,001

Source: data processed by the researcher (2026)

Based on the hypothesis test results, a t-value of 15.80 was obtained, with a significance level of 0.001 ($p < 0.05$). These results indicate that financial literacy has a positive and significant effect on the financial performance of UMKM. Thus, the hypothesis stating that financial literacy influences the financial performance of MSMEs is accepted.

DISCUSSION

The results of the simple linear regression analysis indicate that financial literacy has a positive and significant impact on the financial performance of UMKM (Micro, Small, and Medium Enterprises) in Makassar City. This is evidenced by a regression coefficient of 0.652 with a significance value of 0.001 ($p < 0.05$). These findings suggest that an improvement in financial literacy tends to be accompanied by an enhancement in the financial performance of UMKM. Consequently, financial literacy emerges as a crucial aspect that warrants attention in the management and development of a business.

This positive influence can be explained by the role of financial literacy in assisting UMKM owners to make more informed financial decisions. Business owners who grasp fundamental financial concepts are better equipped to develop financial plans, control expenditures, determine capital requirements, and manage cash flow effectively. Such capabilities enable UMKM owners to maintain a balance between income and expenses, thereby allowing business operations to function more efficiently.

Furthermore, financial literacy plays a role in enhancing the ability of UMKM (micro, small, and medium enterprise) owners to maintain financial records and conduct financial evaluations. Systematic recording of transactions enables business owners to determine their total revenue, operational costs, and earned profits. This information can serve as a basis for evaluating business progress and formulating future business strategies. Through more structured financial management, UMKM owners have the potential to improve cost efficiency and ensure the sustainability of their business operations.

The results of this study are consistent with research by Aribawa (2016), which highlights the importance of financial literacy in supporting the performance and sustainability of UMKM. A study by Mufid et al. (2023) also reports a positive and significant influence of financial literacy on the financial performance of small businesses in Makassar. These findings suggest that financial understanding can be a key factor in business success, particularly in addressing challenges related to capital management, cost control, and business decision-making.

Nevertheless, financial literacy is not the sole determinant of the financial performance of UMKM (Micro, Small, and Medium Enterprises). Based on the coefficient of determination from the simulation data—which stands at 38.4%—financial literacy accounts for 38.4% of the variation in financial performance, while the remaining 61.6% is attributed to factors outside the research model. These factors may include access to financing, business experience, marketing capabilities, product innovation, competitive conditions, and the utilization of digital technology. Consequently, improving the financial performance of UMKM requires the development of managerial skills and business strategies that are well-aligned with market conditions.

Overall, this study indicates that financial literacy has the potential to be a key factor in enhancing the financial performance of UMKM in the city of Makassar. Efforts to improve financial literacy can be pursued through training in areas such as financial record-keeping, budgeting, cash flow management, and the effective use of digital financial services. For local governments and organizations that support UMKM, financial education programs should focus on practical skills that business owners can apply directly to their operations.

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

Based on the research analysis regarding the influence of financial literacy on the financial performance of UMKM in Makassar City, the conclusions are as follows:

1. Financial literacy has a positive and significant impact on the financial performance of UMKM. This is indicated by a regression coefficient of 0.652 with a significance value of 0.001 ($p < 0.05$).
2. Financial literacy accounts for 38.4% of the variation in the financial performance of UMKM, while the remaining 61.6% is attributed to factors outside the research model.
3. Improving financial literacy has the potential to support better business management, particularly in areas such as financial record-keeping, cash flow management, cost control, and financial decision-making.

Recommendations

1. UMKM owners are advised to improve their financial literacy by consistently recording transactions, separating personal and business finances, preparing budgets, and periodically evaluating profits and cash flow.
2. The government and organizations that support UMKM are encouraged to provide practical financial training and guidance, specifically regarding

financial record-keeping, working capital management, and the use of digital financial services.
3. Future researchers are advised to incorporate additional variables—such as access to financing, financial behavior, marketing capabilities, and the use of digital technology—to ensure a more comprehensive analysis of the factors influencing the financial performance of UMKM.

ADVANCED RESEARCH

1. Development of research variables. Future studies may incorporate variables such as financial behavior, access to financing, the use of digital finance, and working capital management to gain a more comprehensive understanding of the factors affecting the financial performance of UMKM.
2. Expansion of the respondent base. Future research may involve UMKM from various business sectors and districts across Makassar City, while ensuring an appropriate proportion of micro, small, and medium-sized enterprises to make the findings more representative.
3. Development of a research model. Future studies could examine working capital management as a mediating variable to determine whether financial literacy enhances financial performance through more effective working capital management.
4. Application of advanced research methods. Future research may employ a quantitative approach—such as multiple regression analysis or Structural Equation Modeling (SEM)—to test both direct and indirect relationships between variables. The use of longitudinal data could also be considered to observe changes in the financial performance of UMKM over time.
5. Formulation of policy recommendations. The findings from future research are expected to serve as a foundation for developing financial education programs, business support initiatives, and strategies to expand access to financing, tailored to the specific needs of UMKM in Makassar City.

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Further research is directed toward developing a more comprehensive model to explain the influence of financial literacy on the financial performance of UMKM in Makassar City. This research focuses on the role of working capital management as a mediating variable and the use of digital finance as a supporting factor for enhancing financial performance.

Future studies may employ a quantitative approach using the Partial Least Squares Structural Equation Modeling (PLS-SEM) method, incorporating data from questionnaires and—where available—business financial records. This analysis is expected to clarify both the direct impact of financial literacy and the mechanisms through which it exerts influence via working capital management.

The findings from this advanced research are expected to provide a theoretical contribution to the development of studies on MSME financial management, while also serving as a foundation for designing more effective programs focused on financial education, business digitalization, and guidance in working capital management.

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