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Fintech, Social Capital and Performance of Indonesian MSMEs

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Abstract

This research aims to determine the influence of financial technology, financial literacy and financial inclusion on the performance of micro, small and medium enterprises (MSMEs) in Indonesia mediated by social capital. This research uses quantitative methods, assisted by SmartPLS software for data processing in structural equation modelling analysis. The contribution of this research can be used as a financial strategy for MSMEs to survive, such as testing how financial technology, social capital and financial literacy interact. The results of this research show that the use of financial technology, financial inclusion and financial knowledge can significantly influence the performance of MSMEs. In addition, social capital significantly mediates the relationship between financial technology, financial inclusion, financial knowledge and MSME performance. The results of this research provide a solid basis for creating a broad and integrated policy strategy. The success of MSMEs depends on a wise combination of fintech, financial inclusivity, financial literacy and social wealth. Therefore, policy makers, financial institutions and business people can use this information to create an environment that supports the growth and sustainability of MSMEs and makes a greater contribution to the local and national economy.

Keywords

Financial technology, financial literacy, financial inclusion, social capital, performance, MSMEs

1. Introduction

In the current era of globalization, the financial sector has a very broad market and plays an important role in a country's economy. Therefore, one of the government's very strategic policies in the financial sector is increasing financial literacy

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which will have implications for intensifying financial inclusion (Morgan et al., 2019). In this case, to increase financial inclusion, the government continues to strive to educate the public about knowledge and understanding in the financial sector. Furthermore, the financial industry is aggressively improving services, especially in terms of demand for financial services such as access to financial institutions as well as providers and payment methods such as digital money (Ong et al., 2023). To achieve this goal, various steps have been taken, including the use of technology, improving the quality of available data and information, development of financial sector infrastructure and harmonization and strengthening of financial sector policies. The purpose of this study is to ascertain how financial technology, financial literacy, and financial inclusion, through the use of social capital as a mediator, affect the performance of micro-, small- and medium-sized enterprises (MSMEs) in Indonesia.

Presidential Regulation of 2020 number 144 replaces Presidential Regulation of 2016 number 82, which stipulates the government's commitment to accelerate increasing financial inclusion in Indonesia. Presidential Regulation of 2020 number 144 aims to achieve financial inclusion through (a) increasing access to formal financial services, (b) increasing consumer knowledge and protection regarding finance and (c) improving financial education. As part of the government's efforts to increase public knowledge about finance, the Financial Services Authority (OJK) issued the 2023 Financial Services Authority Regulation (POJK) Number 3 concerning Increasing Financial Literacy and Inclusion in the Financial Services Sector for Consumers and the Community. Improvements to POJK 2023 Number 3 aim to support the government in increasing financial inclusion and help OJK carry out its functions.

Increasing financial inclusion is critical to improving the economy and reducing economic inequality by providing equal access to financial instruments, goods, services and financial institutions for all levels of society (Sethy & Goyari, 2022). Additionally, financial inclusion can help businesses develop their businesses by providing PUJKs with financial services and goods, allowing them to increase their revenues. In the best way, financial inclusion is expected to result in economic improvement, sustainable development and an even increase in social welfare. There were differences in results between the influence of financial technology and financial literacy variables on financial inclusion and social capital factors (Dal Mas & Paoloni, 2020). Financial technology and financial knowledge are the two independent variables used in the research, while financial inclusion is the dependent variable and social capital is the mediating variable. The object of this research is to promote small and medium enterprises (micro, small and medium enterprises [MSMEs]) domiciled in East Java. The three types of variables, namely independent, dependent and mediating, are variables that will influence financial behaviour. The measurements used for the independent variable financial technology are indicators regarding understanding of financial technology, convenience, effectiveness and interest. Meanwhile, the measurement for the dependent variable of financial inclusion uses the dimensions of comfort, quality, use and access. The financial literacy variable is measured using the dimensions of knowledge, abilities, attitudes and behaviour. This study aims to find evidence about how financial technology, financial literacy and financial inclusion influence MSME performance mediated by social capital. The contribution of this research can be used as a financial strategy for MSMEs to survive, such as testing how financial technology, social capital and financial literacy interact. Therefore, this research will use these elements as antecedents to see how financial literacy, social capital and financial technology relate to financial inclusion. An overview of the research background, phenomena and aims is provided in Section I. The theory that was applied to create the research framework and hypothesis is explained in Section II. The techniques utilized are described in Section III. The research's findings and analysis are presented in Section IV. followed by the concluding phase of the analysis in the final section.

II. Literature Review

Theory of Planned Behaviour

According to the Theory of Planned Behaviour (TPB), a person's actions must be based on beliefs based on the information they have obtained. Someone will successfully carry out behaviour as planned if they have the opportunity and resources, and achieving this behaviour depends on motivation (intention) and behavioural control (ability) (Altaf & Jan, 2023; Batmunkh et al., 2020; Strömbäck et al., 2017). This theory suggests that a person's intentions and behaviour do not change. The theory of planned action includes an individual's attitude towards action, subjective norms and perceived control of actions that impact an individual's decision to act (Altaf & Jan, 2023; Bhatt & Prajapati, 2021). A person's perspective on an action can be optimistic or pessimistic, which is reflected in their opinion about the advantages and disadvantages of that action (Niculaescu et al., 2023). Information, social relationships, personality and personality are some of the factors that influence individual behaviour (Jain et al., 2020). In the TPB, personality and information factors are related in explaining financial literacy because personality reflects a person's attitudes and behaviour about finance, while information reflects their understanding of finance. Consequently, financial inclusion is related to the availability of access and individual decision-making abilities to utilize financial products and services (Sethy & Goyari, 2022).

Performance

The Indonesian economy is greatly influenced by the conditions of MSMEs. By contributing around 60% to GDP and providing employment for millions of people, MSMEs play an important role in driving the Indonesian economy (Malik et al., 2022). However, the performance of MSMEs can be influenced by various problems such as limited access to financing, inadequate digital infrastructure and a lack of financial literacy. In this case, the non-ideal performance conditions of MSMEs can affect Indonesia's economic growth. Small and medium-sized businesses (MSMEs) that cannot reach their full potential have limited opportunities to grow and compete in an increasingly digital and global marketplace (Rahman et al., 2022). Limited access to financial resources such as financing and investment can hinder innovation, business growth and wealth equality.

On the other hand, if MSMEs are empowered and strengthened, this will have a significant positive impact on the Indonesian economy. Employment opportunities, poverty levels and national economic resilience can be increased through stable growth of MSMEs. In addition, strong MSMEs have the ability to drive the growth of local business ecosystems, resulting in more complex and sustainable value chains (Rahman et al., 2022). Therefore, to improve the performance conditions of MSMEs in Indonesia, the government, financial institutions and various related parties must help each other. To improve the performance of MSMEs, investment in capacity building, increasing access to financing and a holistic approach that incorporates fintech, financial inclusion, financial literacy and social capital can be key steps. In this way, MSMEs can contribute more to Indonesia's economic growth, increase competitiveness and create a positive impact on society and the country as a whole.

Financial Technology

Fintech offers numerous advantages in comparison to traditional financial institutions. First, fintech enhances the potential for borrowing at reduced interest rates and expedites the loan application procedure (Abbasi et al., 2021; Mohammad, 2020; Morgan et al., 2019). Furthermore, fintech possesses extensive data that can incorporate additional variables when evaluating a borrower's credit risk (Ong et al., 2023; Salamzadeh & Dana, 2021), hence facilitating a transparent, precise and expected assessment of the borrower's creditworthiness. Amidst the COVID-19 pandemic, governments in several nations, including Indonesia, have enforced social distancing measures as a preventive strategy, which has posed challenges for the healthcare sector in delivering appropriate healthcare services. Another advantage of fintech is its ability to facilitate bill payments (such as rent, insurance, electricity, water and other utility expenses, as well as medical bills, hospital fees, surgeries and both inpatient and outpatient care) without the need for physical presence or in-person lending transactions and credit assessments. The COVID-19 pandemic is a health problem that can threaten human life and cause excessive anxiety and feelings of insecurity for most people. Within this particular framework, the significance of health insurance assumes a crucial role in mitigating these potential hazards. The growing prevalence of insurance, along with the implementation of social distancing measures, has prompted individuals to utilize fintech platforms for the payment of their health insurance premiums as well as expenses associated to the Social Health Insurance Administration Body (BPJS), Indonesian Health Card (KIs) and other healthcare-related charges.

Financial knowledge plays a crucial part in ensuring financial well-being. It demonstrates the capacity to analyse economic data to inform financial decision-making. Moreover, financial literacy encompasses various aspects, including not only information but also skills, attitudes and behaviour (Morgan et al., 2019; Shen et al., 2018). Enhanced comprehension of an individual's financial data has the potential to assist healthcare personnel in enhancing the quality of care they provide (Altaf & Jan, 2023; Grohmann, 2018). Lack of understanding of financial concepts is going to hinder individuals from realizing the advantages of enhanced fintech accessibility.

Financial technology is the result of combining technology with services in the financial sector, leading to a transformation from conventional business models to modern business models (OJK, 2020). According to OJK, financial technology is an innovation in the financial services industry that fully utilizes digital technology and serves as a facility for the public to easily access financial services. The various types of financial technology-based banking services include mobile banking (m-banking), mobile payment (m-payment), internet banking, electronic money (e-money) as well as other payment transactions such as electricity token, toll payment (e-toll), credit card, e-commerce site payment, hotel, airplane, train and so on. Various types of services aim to provide convenience, speed and security in accessing financial services for the public (Baig et al., 2021; Grohmann, 2018). The indicators used to measure financial technology encompass several aspects, including knowledge, convenience, effectiveness and interest.

Apart from that, fintech brings innovation in MSME financial management. Digital solutions for bookkeeping, data analysis and cash flow monitoring can help business owners manage finances better, improve decision-making and reduce financial risks as well as more accurate monitoring aspects (Sangwan et al., 2020). In addition, the integration of this technology can help MSMEs better understand how to manage financial aspects which are very important for the survival and success of their business.

H_1**:** Positive influence of financial technology on MSME performance.

Financial Literacy

Financial literacy is an important part of people's lives, and every individual must know how to manage financial resources for their own well-being. Therefore, in the end, it will have an impact on the welfare of the people and the country's economy (Morgan et al., 2019). Market players in this case, both on the seller and buyer side, should have both parties responsible for understanding the contract and providing the seller with clear information about what the actual contents of the product being traded are; this is related to the definition of financial literacy (Grohmann, 2018). Thus, knowledge, skills and attitudes are components of financial literacy. If financial literacy in the population increases, it will increase account ownership and have a major impact on countries that have low financial literacy (Sethy & Goyari, 2022).

Financial literacy is very important to improve the performance of MSMEs. MSME owners who understand financial concepts tend to make better financial decisions. Small and medium businesses (MSMEs) can optimize the use of financial resources by having strong knowledge of financial management, financial report analysis and investment strategies (Rahman et al., 2022). In addition, high financial literacy helps MSMEs plan business growth, manage financial risks and build better relationships with financial institutions. In line with these conditions, increasing financial literacy can help improve the performance of MSMEs.

***H_2*:** Positive influence of financial literacy on MSME performance.

Financial Inclusion

Financial inclusion is when everyone can use financial products and services (Malik et al., 2022). According to Consultants from the Group to Assist the Poor/G-20 Global Partnership for Financial Inclusion, financial inclusion refers to a situation when all people, both adults and those of working age, have effective access to financial services offered by institutions formal finance, such as credit, savings (including current accounts), payments and insurance, collectively, responsively and fulfilling access to various strictly managed financial services and expanding their use to all parts of society using innovative approaches (Sethy & Goyari, 2022).

To increase access to financial services, people living in rural and remote areas, including low-income community groups and MSMEs, continue to be encouraged to use digital technology. This group is very important to achieve the target of 90% national financial inclusion by 2024. Government policy is committed to developing the digital and fintech sectors to increase the competitiveness and productivity of MSMEs. With financial support from the Swiss State Secretariat for Economic Affairs, the International Labor Organization collaborated with the Secretariat of the National Council for Financial Inclusion (DNKI) and the Financial Services Authority (OJK) to launch the PROMISE II Impact Program, which aims to encourage micro and small businesses through business access to financial services (OJK, 2024).

According to the Financial Services Authority (2016), the availability of access to various organizations, goods and financial services that suit the needs and abilities of society with the aim of improving society's welfare is called financial inclusion. Society will be more productive and purchasing power if these financial goods and services can be accessed easily. As a result, the goal of building the pillars of an inclusive financial strategy was achieved. Based on the definitions above, financial inclusion can be defined as an event, situation or people's ability to access, reach and utilize various types of financial products and services available to meet their needs more efficiently and effectively. The concept of financial inclusion is based on four dimensions: welfare, quality, use and access (Wang & Luo, 2022).

Financial inclusion is very important to improve the performance of MSMEs. This is because it helps MSMEs gain better access to financial services and gives them a more solid foundation for growth. Small and medium-sized businesses (MSMEs) that participate in the formal financial system have better capabilities to manage transactions, obtain financing and utilize innovative financial products (Asongu et al., 2021). By increasing access, MSMEs are not only more efficient in running their operations but also have greater opportunities to enter larger markets. Thus, financial inclusion helps overall economic growth.

***H_3*:** The effect of financial inclusion on MSME performance.

Social Capital

Social capital is about solidarity and self-confidence that helps run a business. Social capital also comes from social relationships consisting of friends, family, co-workers and other people (Abbasi et al., 2021; Alsunni & Latif, 2021). The smallest social groups, such as families, to the largest social groups, such as communities or nations, can have social capital. Social capital can be defined as the existence of official values and norms that apply among members of a particular group that enable work, as well as kinship, institutions, behaviour and values that regulate interactions between human beings that make significant economic and social contributions.

Social capital refers to the processes that occur between people that encourage mutually beneficial cooperation and collaboration and build social networks, norms and trust. Ties connect people with similar economic status and demographic characteristics so that the groups defined in these relations are very homogeneous (Mai et al., 2021). At the same time, bonds of social capital keep out outsiders, forming inclusive bonds that transcend ethnicity, caste, race, culture and other social divisions. It is a relationship that creates strong solidarity within a group structure and mobilizes individuals and resources towards a common goal. According to Candiya Bongomin et al. (2016), the concept of social capital is based on aspects of collective action, connection, trust and bonding.

Social capital has an important role in improving the performance of MSMEs. This concept includes solidarity, trust and a network of social relationships that can help businesses grow. In the context of MSMEs, social capital can help business owners work together, provide information assistance and provide easier access to resources that may be difficult to access individually (Maksum et al., 2020). The kinship, institutions, values and behaviour that form social capital provide the basis for good interaction and the formation of strong ties between MSME actors. These social networks can also help in the exchange of knowledge, business opportunities and financial support. Social capital can also foster trust among MSME stakeholders, such as customers, business partners and financial institutions.

***H_4*:** Positive influence of financial inclusion on MSME performance.

Social Capital, Financial Inclusion and Performance

Social capital plays an important role as a mediator in the influence of financial inclusion on the performance of MSMEs. Financial inclusion can provide huge benefits for MSMEs, but without social capital, these benefits may not be fully realized. Social capital builds a network of relationships that enables MSMEs to better access and utilize financial services. In situations like this, social ties, trust and cooperation within the MSME community are very important. With the trust built through social capital, MSMEs may be inclined to use financial services such as financing or insurance, which can improve financial stability and overall business performance (Benitez et al., 2018). Therefore, social capital mediates the relationship between financial inclusion and MSME performance by creating an environment that supports the full utilization of financial services. This understanding provides deeper insight into how social interactions and network presence can optimize the benefits of financial inclusion, ensuring that MSMEs not only access these services but also incorporate them into business strategies.

> H_5: Social capital mediates the effect of financial inclusion on MSME performance.

Social Capital, Financial Literacy and Performance

Social capital functions as a link between financial literacy and business performance in MSMEs. Financial literacy provides MSME owners with better knowledge and understanding of financial management, financial report analysis and how to make smart financial decisions. However, this financial knowledge is not optimal without social capital. MSME owners can better share financial knowledge, learn from the experiences of others and gain support in applying financial literacy in daily business operations through the network of relationships created by social capital (Kraus et al., 2023). Social capital is an important link between financial knowledge and the success of MSMEs. Social support and information exchange through social networks can help MSME owners use financial knowledge better, make wiser financial decisions and overall improve business performance. Therefore, investing in building social capital can be a wise choice to promote the prosperity of MSMEs.

> H_6: Social capital mediates the effect of financial literacy on MSME performance.

III. Research Method

This research is included in the basic research category because the focus is on testing, changing and developing theories found in previous research. The focus of the research is the cause-and-effect relationship between independent variables (financial technology, financial inclusion and financial literacy), dependent variables (performance) and mediating variables (social capital). In addition, this research uses quantitative data when processed to be used as information and distributed to respondents in the form of a questionnaire. Therefore, this research uses quantitative methods, assisted by SmartPLS software for data processing in structural equation modelling (SEM) analysis. Respondent criteria include

MSMEs that currently at least use technology in their operational activities, have been operating for at least one year and have at least one employee. This research will target MSMEs with a focus on Indonesia. The population sample will be collected from various cities and is not limited to age, gender or other demographic factors. According to Hair et al. (2014), there are several rules related to the number of research variables. First, if the number of variables in the research is less than or equal to five, then a minimum of 100 respondents are required as a sample; second, if the number of variables in the study is less than or equal to seven, then a minimum of 150 respondents are required as a sample; and third, if the number of variables in the research is more than seven, then a minimum of 300 respondents are needed as a sample. This research has five variables so it requires a minimum of at least 100 respondents. The population of this research is all MSMEs in Indonesia. Samples are taken using certain criteria. From the sample that has been determined, data will be collected in the following way: (a) create a questionnaire to ensure the questions are correct; (b) select target respondents based on several criteria and try to match the target respondents; (c) conduct a survey by sharing the Google Form link with target respondents; (d) explain the research objectives, including guidelines for filling out the questionnaire; (e) collect and check results from respondents and (f) analyse and process data available for research.

Variables and Operational Definitions of Variables

The questions for respondents have been modified according to the response design, namely scale 5. The scale in question is the level of agreement; 1 for the level of least agreement and 5 for most agreed.

Dependent Variable (Performance)

MSME performance refers to the evaluation and assessment of the results or achievements obtained by an MSME in carrying out its business activities. MSME performance can be measured using various indicators, depending on the objectives and context of the business in question.

(a) My turnover rate has increased; (b) the number of my customers continues to increase; (c) my business continues to progress; (d) the amount of my debt has decreased; (e) the number of my employees has increased; (f) the amount of my operational funds has increased; (g) the number of my customers has become more loyal; and (h) my operational efficiency has increased.

Independent Variable (Financial Inclusion)

Financial inclusion means being able to access various types of money, goods and service transactions that suit people's abilities and needs with the aim of improving people's welfare. To measure financial inclusion in research, there are four dimensions: access, quality, use and welfare. The following is a collection of statements based on Candiya Bongomin et al. (2016) which shows that each statement includes financial aspects.

1. Access: (a) I feel safe using financial institution transaction services. (b) Administration and service fees charged by financial institutions are affordable.
2. Quality: (a) Products/services provided by financial institutions are safe for me. (b) Transportation costs from my place to the financial institution are low.
3. Usage: (a) Products/services that suit my needs. (b) Transaction conditions provided by financial institutions are profitable for me.
4. Prosperity: (a) Products/services provided by financial institutions.

Independent Variable (Financial Technology)

Financial technology and financial literacy are the independent variables used in this research. Financial technology is a new innovation in the financial services industry that utilizes digital technology. This innovation can help people access the financial service system through this facility. Financial technology has four characteristics: knowledge, convenience, effectiveness and interest. The following grouping of statements shows the respective financial technologies, based on Hutabarat (2018).

1. Knowledge: (a) I understand financial technology well. (b) I know that financial technology is a financial service outside banking. (c) I know exactly about financial technology products.
2. Convenience: (a) I find it easier to use financial products with financial technology. (b) Using financial technology is very easy so I can learn by myself without the help of others. (c) I find it easier to make transactions with financial technology.
3. Effectiveness: (a) I feel that I get benefits if I make transactions using financial technology products. (b) Using financial technology makes my transactions faster so I do not need to spend a lot of time. (c) I feel that there are many features that I need from financial technology applications as new innovations to the financial industry.
4. Interests: (a) I am interested in financial technology as a new innovation in the financial industry. (b) I intend to use financial technology because it is more practical. (c) I prefer to use financial technology products rather than going to the bank or ATM.

Independent Variable (Financial Literacy)

One important component in people's lives is financial literacy, which means everyone must know how to manage financial resources effectively for their own welfare. There are four dimensions of financial literacy: knowledge, ability, attitude and action. These dimensions were adapted for use in research. The following is a collection of statements based on Candiya Bongomin et al. (2016) which shows different financial literacy.

1. Knowledge: (a) I have the ability to create a budget independently. (b) I am able to make good use of financial products or services financially. (c) I compare prices before choosing a financial product or service.

2. Abilities (skills): (a) I have the ability to accurately determine the profits and costs of financial transactions. (b) I feel very interested in matters related to financial business.
3. Behaviour: (a) I always save regularly. (b) I always use money in the right way.

Mediation Variable (Social Capital)

Social capital is the mediating variable used in this research. Social capital includes solidarity, self-confidence that helps run a business and elements that come from social relationships, such as family, friends, co-workers and others. Social capital has four dimensions: collective action, connection, trust and formation. These dimensions were adapted for use in research. According to Candiya Bongomin et al. (2016), the following is a collection of statements that indicate each social capital.

1. Group actions: (a) I always do charity to help groups or communities. (b) I always share information with other people in my group or community. (c) I always want to provide something useful to my group or community (reciprocal relationship).
2. Relationships: (a) I am always honest among members of my group or community. (b) I always have a high sense of trust among members of my group or community. (c) I always treat members of my group or community as equals to other people.
3. Trust: (a) Most members in my group/community can be trusted. (b) In this group/community, I generally trust other people when it comes to borrowing and borrowing money. (c) I always act politely among group/community members.
4. Bridging: (a) I always share my plans with others. (b) I always share my ideas and thoughts with other people. (c) I always share and use my abilities in what I do with other people.

The following is the econometric equation model in this research:

$$\text{Performance} = \alpha + \beta Fintech + \beta FinLit + \beta FinInc + \varepsilon$$

where *Fintech* is the financial technology, *FinLit* is the financial literacy, *FinInc* is the financial inclusion, ε is the error and β is the beta.

IV. Results and Discussion

Profile of Respondents

In February 2024, 100 surveys collected met the respondent criteria. After that, it is processed using SEM). All participants have appropriate characteristics: internet and fintech users to carry out payment transactions. Respondents came from the East Java Region, Surabaya, Banyuwangi, Blitar, Bojonegoro, Jombang,

Table 1. Profile of Respondents.

Profile	Characteristics	%
Gender	Male	37
	Female	63
Age	<25 years	25
	26–35 years	45
	36–45 years old	15
	>46 years	15
Marital status	Married	45
	Single	50
	Divorced	5
Education level	Senior/Vocational high school	65
	Diploma	24
	Bachelor's degree	12
	Specialist/Master's degree	4
Current occupation	Private employees	16
	Self-employed	6
	Professional	6
	Civil servants	5
	Others	66
Monthly income	<2 million	24
	2–4 million	18
	4–8 million	38
	>8 million	19
Daily time spent using the internet	1–5h	36
	6–10h	10
	>10h	54
What applications do you access on your smartphone besides phone activities	Social media	85
	Reading news/information	15
What fintech application features do you use	Digital payments (GoPay, Ovo and DANA)	80
	Do not use fintech	20
How many times do you use fintech applications in a week	1–2 times	5
	3–5 times	21
	6–8 times	32
	>8 times	41

Kediri, Lamongan, Malang, Mojokerto, Nganjuk, Ngawi, Sidoarjo, Situbondo, Trenggalek and Tulungagung. Table 1 shows the results of processing the data from the respondents.

Results

The independent variables—financial technology, financial inclusion and financial literacy—and the dependent variables—performance and mediation variables—have a cause-and-effect relationship with each other, as shown in Figure 1.

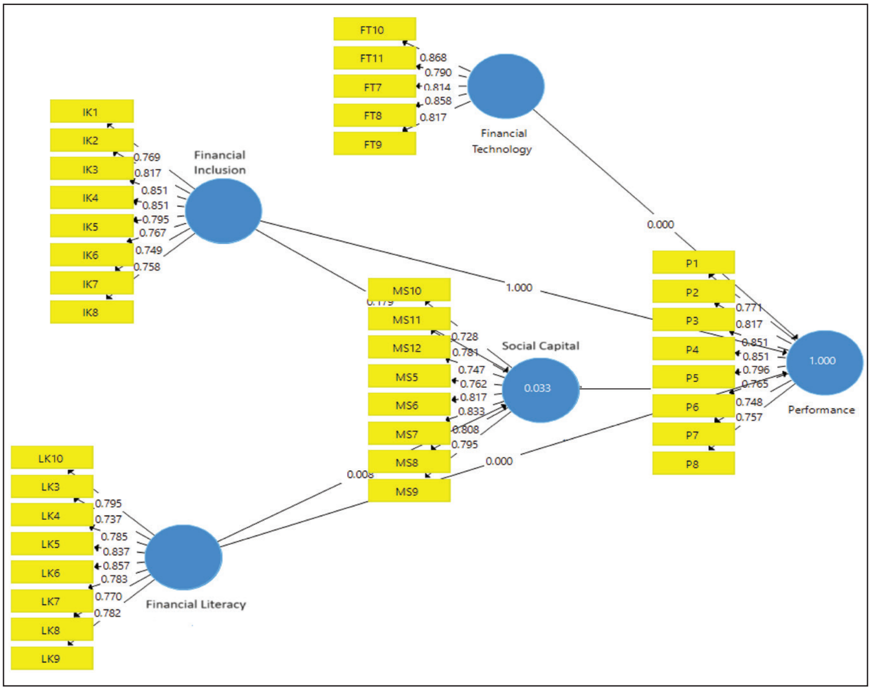

Figure 1. Results Framework.

To measure reliability, Cronbach's alpha was used. The results reached 0.74–0.86, exceeding the recommended minimum of 0.700. Table 2 shows these values.

This test focuses on the level of consistency, because the consistent reliability of each variable shows the quality of the questionnaire. Cronbach's alpha is a statistical test used to measure reliability; the value must be more than 0.6, which means that it is reliable, and the value must be less than 0.6, which means that it is less reliable. The total Cronbach alpha value in this study is more than 0.6, as shown in Table 2. In addition, convergent validity, also known as validity testing, is used to evaluate whether the indicators used meet the requirements. If the loading factor in the data is greater than 0.7, the rule is valid. On the other hand, the results of research conducted by Chin in 1988 show that a holding factor between 0.5 and 0.6 is suitable for research. This study can be considered valid because the validity test results are more than 0.7.

The SmartPLS 3.0 application can display results based on external load and average variance extracted, which can also be approved. Each indicator qualifies for testing because its external load is more than 0.7.

Table 3 shows the statistical results of the relationship between variables.

In this study, the SEM is used. The criteria for determining whether the hypothesis is significant are based on *T* statistic and *P* value, which must be greater than 1.96 and less than .05. The test is divided into direct effect and indirect effect using SmartPLS 3.0 application. From Table 3, it shows that all hypotheses show they are accepted.

Table 2. Reliability Analysis of the Questionnaire Items.

Variables	Items	Loading	Cronbach's Alpha	Composite Reliability	AVE
Financial technology	FT10 ← Financial technology	0.87	0.89	0.92	0.69
	FT11 ← Financial technology	0.79			
	FT7 ← Financial technology	0.81			
	FT8 ← Financial technology	0.86			
	FT9 ← Financial technology	0.82			
Financial inclusion	IK1 ← Financial inclusion	0.77	0.92	0.93	0.63
	IK2 ← Financial inclusion	0.82			
	IK3 ← Financial inclusion	0.85			
	IK4 ← Financial inclusion	0.85			
	IK5 ← Financial inclusion	0.80			
	IK6 ← Financial inclusion	0.77			
	IK7 ← Financial inclusion	0.75			
	IK8 ← Financial inclusion	0.76			
Financial literacy	LK10 ← Financial literacy	0.80	0.92	0.93	0.63
	LK3 ← Financial literacy	0.74			
	LK4 ← Financial literacy	0.79			
	LK5 ← Financial literacy	0.84			
	LK6 ← Financial literacy	0.86			
	LK7 ← Financial literacy	0.78			
	LK8 ← Financial literacy	0.77			
	LK9 ← Financial literacy	0.78			
Social capital	MS10 ← Social capital	0.73	0.91	0.93	0.62
	MS11 ← Social capital	0.78			
	MS12 ← Social capital	0.75			
	MS5 ← Social capital	0.76			
	MS6 ← Social capital	0.82			
	MS7 ← Social capital	0.83			
	MS8 ← Social capital	0.81			
	MS9 ← Social capital	0.80			
Performance	P1 ← Performance	0.77	0.92	0.93	0.63
	P2 ← Performance	0.82			
	P3 ← Performance	0.85			
	P4 ← Performance	0.85			
	P5 ← Performance	0.80			
	P6 ← Performance	0.77			
	P7 ← Performance	0.75			
	P8 ← Performance	0.76			

Note: AVE: Average variance extracted.

Discussion

The research results show that Indonesia is a developing country with the current conditions of MSMEs. Evidence of this includes that MSMEs often face a number of problems, such as limitations in managing risk, limited capital and lack of

Table 3. Hypothesis Testing.

Relationships → financial technology	*T* Statistics (|O/STDEV|)	*p* Values	Result
Financial technology → performance	18.12	.09	Significant
Social capital → performance	24.56	.03	Significant
Financial inclusion → performance	4,458.49	.00	Significant
Financial literacy → performance	20.24	.08	Significant
Financial inclusion → social capital → performance	192.72	.09	Significant
Financial literacy → social capital → performance	123.05	.07	Significant

digital infrastructure. These challenges and problems should be answered by utilizing technology such as fintech to increase operational efficiency, optimize financial management and gain easier access to financial resources. Some of the policies that have been provided by the government are the existence of financial institutions and local business ecosystems that can help MSMEs become better, such as cooperatives and business loans to increase their resilience so that they can improve the economy as a whole (Cicchiello & Kazemikhasragh, 2022; Malik et al., 2022).

Access to financial institutions through fintech occurs on digital marketing and e-commerce platforms (Sangwan et al., 2020). With the condition of MSMEs in Indonesia, like it or not, MSMEs have to adapt to technology because the majority of consumers can be obtained from there. Even in times of financial difficulty, the loan process is faster and the lack of traditional requirements makes access to capital easier, thereby opening up growth opportunities with fintech.

This research shows that financial inclusion has a positive effect on the performance of MSMEs in Indonesia. This is because MSMEs can enjoy great benefits from financial inclusion as more and more initiatives aim to increase access to financial services for previously marginalized groups. In addition, MSME owners can improve their ability to manage financial transactions, open the door to easy financing and gain access to innovative financial products by providing easy-to-access bank accounts. This is in line with research showing that increasing access to financial services can help small and medium enterprises (MSMEs) improve their credit history and make it easier for them to obtain additional financing for expansion (Asongu et al., 2021). The results of this research are also supported by the argument that if MSMEs had easier access to financing, they could invest in working capital, expand production or adopt new technologies (Ong et al., 2023). This can directly increase productivity and increase the competitiveness of MSMEs in Indonesia, especially MSMEs located in traditional markets.

The condition of MSMEs in Indonesia seems less aware of financial literacy. MSMEs in Indonesia mostly carry out money transactions, routine buying and selling activities, without knowing how to manage finances well, what investments are optimal and so on. In fact, a better understanding of financial concepts helps MSME owners make wiser decisions in managing their business finances even in crisis conditions. Apart from that, understanding financial concepts allows MSMEs to be smarter in choosing sources of financing that suit their business needs. By increasing financial literacy, MSMEs can better understand available financial instruments, such as loans, investments and insurance. This helps small and medium enterprises (MSMEs) optimize the use of their resources and create more sustainable financial strategies. MSME owners with high financial literacy are also better at planning business growth, finding opportunities and facing challenges (Shen et al., 2018). Having the ability to plan and manage financial risks effectively is also the key to increasing the resilience of MSMEs to economic changes (Atkinson & Messy, 2012). In addition, increasing knowledge about financial risks can help MSMEs get closer to financial institutions and investors. This helps MSMEs provide a wider market and more capital so that their performance can be better.

In terms of wealth level, MSMEs in Indonesia are still considered average. In fact, many are below average. In fact, businesses such as MSMEs are greatly influenced by community wealth. Social capital includes resources that can be obtained through social relationships, interpersonal networks, trust and social norms. A strong social network can help MSMEs gain access to important information, business opportunities and resources that may not be accessible without social support. Strong interpersonal relationships can also be a source of useful knowledge so that MSMEs can find market opportunities or solutions to their business problems. Businesses can deliver better results if they collaborate with others on social networks. This can reduce costs, increase market access and expand customer share (for 2022).

Meanwhile, social trust can also improve the reputation of MSMEs. Customers and business partners tend to have more trust in businesses with good work ethics and strong social relationships. This can increase customer loyalty and increase the attractiveness of the business in the market. Therefore, social wealth can act as an important component in improving the performance of MSMEs. MSMEs can benefit from effective management and utilization of social relationships, which can help them overcome problems, gain access to resources and create an environment that supports the growth and sustainability of their businesses. Therefore, investing in developing social wealth can be a wise choice to improve the performance of MSMEs in an increasingly competitive business environment.

V. Conclusion

Factors such as the use of financial technology (fintech), financial inclusion, financial knowledge and social wealth can influence the performance of MSMEs. Fintech can improve the performance of MSMEs by providing fast and efficient access to financial services, speeding up transactions and increasing operational efficiency. The use of fintech can also create a more dynamic and flexible business environment, which allows more people to work. In addition, financial inclusion really helps small and medium enterprises (MSMEs) by providing wider access to financial services. Financial inclusion allows MSMEs to obtain financing, open bank accounts and utilize various financial instruments to grow. This enables MSMEs to manage financial risks, expand operations and increase competitiveness.

Business owners who have good financial literacy can manage risks wisely, plan budgets well and make smart financial decisions. This is an important factor that improves the performance of MSMEs. Financial literacy helps MSMEs improve operational efficiency, take advantage of investment opportunities and maintain the financial stability necessary for sustainable growth. Meanwhile, social wealth can also help MSME operations. Strong social relationships can enable profitable cooperation and partnerships, provide information support and facilitate access to necessary resources. MSMEs can expand market share, build a good reputation and create a good business environment by building a solid network.

With a strong social network, MSME owners can better apply their financial knowledge in daily business practices, increasing the positive impact of financial literacy on performance. It is important to remember that social wealth can function as a mediator in the relationship between financial literacy and MSME performance. In the same way, social wealth has the ability to regulate the relationship between MSME success and financial inclusion. The support and trust provided by social networks can help MSMEs better utilize the financial services provided by financial inclusion, thereby optimizing the positive impact generated by business performance. In situations like these, combining fintech, financial inclusion, financial knowledge and social wealth can create an environment that supports the growth and resilience of MSMEs. Implementing a holistic and interconnected strategy can be the key to improving the overall performance of MSMEs.

To comprehend the critical factors influencing small-scale firm success, research on the effects of fintech, financial inclusion, financial literacy and social capital on the performance of MSMEs is imperative. The results of this study can offer a comprehensive understanding of the ways in which MSME's performance can be impacted by the integration of financial technology, financial inclusion, financial literacy and social capital. Research can shed light on how financial technology might be used to increase MSMEs' operational effectiveness and financial resource accessibility in the context of fintech. The ramifications include chances to foster growth and innovation via technical advancements that can help MSMEs overcome their financial obstacles. In the meanwhile, findings from studies on financial inclusion can offer a thorough grasp of how MSMEs' performance may be impacted by increased access to financial services. Among the ramifications is the possibility of creating financial inclusion policies and initiatives that are more successful in fostering the expansion and resiliency of MSMEs. Furthermore, financial literacy can shed light on the degree to which the financial literacy of MSME owners influences the performance of their companies. The need for improved financial literacy education and training programs is one of the implications, as it would enable MSMEs to manage risk and make more informed financial decisions. Lastly, social wealth can demonstrate how crucial social networks are to the operations of SMEs. In order to facilitate the sharing of knowledge, commercial possibilities and financial assistance among the local business community, this may involve placing a high focus on establishing and preserving good social relationships. The findings of this study offer a strong foundation for developing an extensive and well-rounded policy strategy. A prudent mix of fintech, financial inclusivity, financial literacy and social wealth is necessary for MSMEs to succeed. In order to foster an environment that encourages MSMEs' expansion and sustainability and allows them to contribute more to the regional and national economies, policymakers, financial institutions and businesspeople can use the information provided here.

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