

# Is There a Pattern of Relationships between Financial Literacy, Tax Literacy, Business Growth, and Competitive Advantage on Creative MSMEs in Yogyakarta

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**Abstract**—This study aims to analyze the pattern of the relationship between financial literacy, tax literacy, business growth, performance, and the competitive advantage of Creative MSMEs in Yogyakarta. Many researches were conducted on financial literacy and taxation literacy, but the analysis emphasizes the effects on bank credit and tax compliance. The new thing in this study is the relationship between those five variables. The object of this research is Creative MSMEs in Yogyakarta because Yogyakarta has a variety of traditions and cultures with a skilled, innovative and creative population that accelerates the growth of Creative MSMEs. This study uses a sample of MSMEs in Yogyakarta that took part in training in the acquisition of intellectual property rights. Data collection is done through an independent questionnaire. Using the correlation test, it was found that taxation literacy, performance, and business growth had a significant linear relationship. While taxation literacy and competitive advantage do not have a significant linear relationship. Financial literacy, performance, business growth, and competitive advantage are non-significant linear relationships. Theoretical implications, this study provides additional knowledge about the importance of patterns of financial literacy relations, tax literacy, performance, business growth, and competitive advantage for Creative MSMEs. Managerial implications, this research provides insight for stakeholders who have the authority to increase knowledge of financial literacy and tax literacy to MSMEs in Indonesia.

**Index Terms**—financial literacy, tax literacy, performance, business growth, competitive advantage, micro small medium enterprises

## I. INTRODUCTION

The dynamics of MSMEs have contributed significantly to the Indonesian economy. In the Special Region of Yogyakarta (DIY), MSMEs make an economic contribution of 95% (<http://jogja.tribunnews.com>, access

July 21, 2018). Increasingly competitive market conditions and increasingly limited natural resources require new breakthroughs by relying on creative and innovative human resources as basic capital in the face of free market competition. DIY is rich in traditional culture and diverse character of its inhabitants so that the creative industry has great potential to be developed. Creative MSMEs have very high durability, tenacity and innovation, making them more competitive to penetrate the global market [1].

The development of creative MSMEs is often late because of various conventional problems that have not been resolved completely. These problems include human resource capacity, financing, marketing, bookkeeping, and financial management which makes it difficult to compete with large companies [2]. Strategic efforts are needed to improve the performance and sustainability of MSMEs, including increasing financial knowledge so that management and accountability can be justified as well as large companies. Literature proves that a company's ability to recognize and access financial resources will have an impact on the company's growth rate [3], [4].

Some studies found positive results about the importance of MSMEs in financial and taxation literacy. MSMEs that have an understanding of finance and taxation both increase business growth [5]-[8] and competitive advantage [4], [9]. [8], [10] recommended the importance of financial literacy for MSME managers through financial training. Managers with higher financial literacy levels indicate greater participation in financial markets [10]-[12]. Ponoricã and Al-Saedi [13] found that understanding taxation literacy was closely related to the growth of the company.

Contradictory research found that MSMEs had various difficulties to increase business growth, especially those that included tax costs [11]. Agyei [14] explains financial literacy as the main organizational resource to improve

the performance of MSMEs through sustainable competitive advantage. Unfortunately these resources are not utilized. Low financial literacy can reduce the ability to raise and manage assets and ultimately does not guarantee a better financial future. [15]-[18] found that women generally had lower levels of financial literacy than men. [9], [13] explains that MSMEs are difficult to comply with taxes due to poor tax morale.

Based on the findings of the previous research gap, research will be carried out to fill the gap by integrating patterns of business growth relationships, enhancing sustainable competitive advantage, performance, financial literacy, tax literacy in Creative MSMEs in Yogyakarta. This study aims to analyze the condition of Creative DIY MSMEs relating to the pattern of relations between financial literacy, tax literacy, business growth, performance, and competitive advantage in Creative MSMEs in Yogyakarta. This research is expected to 1) increase financial literacy and tax literacy and tax literacy in Creative MSMEs in relation to improving performance, accelerating business growth and achieving competitive advantage, 2) providing insight to stakeholders to improve financial and taxation literacy in Indonesia.

## II. METHOD

This study uses primary data through a questionnaire to strengthen the results of the study. Population is Creative MSMEs in the province of D.I. Yogyakarta. The sample is determined by proportional simple random sampling technique. Samples were taken from all districts/cities in D.I. Yogyakarta, including Sleman Regency, Kulonprogo Regency, Gunungkidul Regency, Bantul Regency and Yogyakarta City. The sample used as respondents in this study was 56. The questionnaire used a model developed by Likert with an interval scale of 5, namely: 1. strongly disagree, 2. disagree, 3. neutral, 4. agree, 5. strongly agree. The statistical technique for analyzing data is the product moment correlation coefficient.

## III. RESULT AND DISCUSSION

### A. Profile of Respondent

Respondents in this study were MSMEs in Yogyakarta region. The respondents are mostly company owners with the educational background in high school (96% of respondents). The number of employees owned by the most MSMEs is 4-5 employees. Most the respondents (98%) have sales of less than 100 million rupiahs. Around 90% of respondents have assets less than 100 million rupiahs. This shows that respondents are MSMEs. The source of fund generally comes from the owner. As many as 80% of MSMEs have held bookkeeping and only 35% understand taxation.

### B. Description of Research Variables

This study uses five variables, consisting of financial literacy, tax literacy, performance, business growth, and competitive advantage. Each indicator in each variable is ranked to determine the categories of each indicator [19].

Determining the categories of each indicator can be seen in Appendix A up to Appendix E which is presented at the end of this paper.

Appendix A shows the results of UMKM perceptions of financial literacy with eight indicators measurement. The financial literacy variable shows the average value of all indicators of 3.40 or in the medium category. The recording indicator for each transaction has the highest value, which is 3.77, while the financial statements indicator does not need to be made the lowest value which is 2.71. This shows that MSMEs are recording because they think that financial statements are beneficial to their business.

Tax literacy is measured through six indicators. The results of MSME perceptions of tax literacy can be seen in Appendix B. Appendix B shows that the average value of all indicators is 3.19 including the medium category. The benefits indicator has an NPWP which has the highest value, which is 3.43. This means that MSMEs are aware of the importance of NPWP in the business world, for example the terms of selling goods to the government, bank loans, avoiding higher tax rates, obtaining tax refunds, and others.

Performance is measured through seven indicators. The results of MSME perceptions of performance can be seen in Appendix C. The 7 indicators used in measuring perceptions of performance show a high average value above the value of 3.57, as shown in Appendix C. MSMEs are aware of the importance of performance and continue to strive to improve performance. Indicators of guaranteeing the timeliness of customers are important things that are the advantages of MSMEs with the highest value in performance variables (3.95).

Six indicators are used as a measure of business growth variables. Business growth is measured through the achievement of break-even point, customer satisfaction, employees, and measured by the increasing of assets. The respondents' perception are presented in Appendix D. Not different from the results of perceptions of performance, perception of business growth shows that the average achievement of high scores is presented in Appendix D. The average value of each indicator is more than 3.5, and it is categorized as high.

There are 10 indicators to measure the perception of competitive advantage. The results of MSMEs perception on competitive advantage can be seen in Appendix E. Appendix E shows all indicators are high category. The average value of each indicator is above the 3.56. The value of four indicators is more than 3.97. It can be concluded that MSMEs are very concerned about competitive advantage.

### C. Validity and Reliability Testing

Validity testing is based on item analysis, which correlates the scores of each item with variable scores. Variable score is the sum of all score items in question. The correlation technique uses Pearson Correlation. Validity testing is done with a significance level of 0.05. Each question is valid if it has  $r$  calculation  $> r$  table or  $\text{sig} \leq 0.05$ . The results of the validity test can be seen in Table I.

TABLE I. VALIDITY AND RELIABILITY TEST RESULT

Variable	Indicator	Pearson Correlation	Significance	Results	Cronbach's Alpha
Financial Literacy	Item 1	0.514	0.000	Valid	0.746
	Item 2	0.454	0.000	Valid	
	Item 3	0.698	0.000	Valid	
	Item 4	0.738	0.000	Valid	
	Item 5	0.751	0.000	Valid	
	Item 6	0.541	0.000	Valid	
	Item 7	0.606	0.000	Valid	
	Item 8	0.556	0.000	Valid	
Tax Literacy	Item 1	0.515	0.000	Valid	0.858
	Item 2	0.822	0.000	Valid	
	Item 3	0.884	0.000	Valid	
	Item 4	0.846	0.000	Valid	
	Item 5	0.758	0.000	Valid	
	Item 6	0.750	0.000	Valid	
Performance	Item 1	0.772	0.000	Valid	0.908
	Item 2	0.750	0.000	Valid	
	Item 3	0.823	0.000	Valid	
	Item 4	0.814	0.000	Valid	
	Item 5	0.865	0.000	Valid	
	Item 6	0.847	0.000	Valid	
	Item 7	0.777	0.000	Valid	
Business Growth	Item 1	0.797	0.000	Valid	0.908
	Item 2	0.844	0.000	Valid	
	Item 3	0.822	0.000	Valid	
	Item 4	0.868	0.000	Valid	
	Item 5	0.883	0.000	Valid	
	Item 6	0.756	0.000	Valid	
Competitive Advantage	Item 1	0.491	0.000	Valid	0.896
	Item 2	0.685	0.000	Valid	
	Item 3	0.859	0.000	Valid	
	Item 4	0.818	0.000	Valid	
	Item 5	0.769	0.000	Valid	
	Item 6	0.707	0.000	Valid	
	Item 7	0.853	0.000	Valid	
	Item 8	0.847	0.000	Valid	
	Item 9	0.629	0.000	Valid	
	Item 10	0.710	0.000	Valid	

Based on Table I, the calculated values of all questionnaire items including the research variables namely financial literacy, tax literacy, performance, business growth, and competitive advantage show probability values (sig) <0.05. So the research variable questionnaire are all valid. The Cronbach Alpha value of all results including the research variable shows a value greater than 0.6, which means the research questionnaire variable is all reliable.

#### D. Testing of Overall Correlation

Correlation analysis using the  $r_{xy}$  correlation formula aims to prove a significant relationship between financial literacy, tax literacy, performance, business growth, and competitive advantage. This analysis aims to measure correlation coefficients between variables, further to reveal the correlation or relationship between variables. The results of the overall correlation test can be seen in Table II.

The results of the correlation test between variables found that the significance level <5%, it was concluded that the literacy of taxation, performance, and business growth have a significant linear relationship. While taxation literacy and competitive advantage have no

significant linear relationship. Other results of the correlation test between variables found that the significance level > 5%, proves that financial literacy, performance, business growth, and competitive advantage do not have a significant linear relationship

TABLE II. THE RESULTS OF OVERALL CORRELATION TEST

Variable	r calculated	Significant	Result
Financial Literacy-Performance	0.220	0.104	Non Linear
Financial Literacy-Business Growth	0.204	0.131	Non Linear
Financial Literacy-Competitive Advantage	0.032	0.812	Non Linear
Tax Literacy-Performance	0.360	0.006	Linear
Tax Literacy-Business Growth	0.406	0.002	Linear
Tax Literacy-Competitive Advantage	-0.092	0.500	Non Linear

#### E. Discussion

Muraga [20] found financial literacy variables including debt management, budgeting, bank services, and bookkeeping or recording had a positive relationship to business performance. Debt management variables have the highest proportion of relations while accounting is the lowest. The influence of financial literacy on the performance and sustainability of Creative MSME businesses is explained by [21]. Managers with low financial literacy have lower or even lower business growth found in this research [22].

The finding [8] explains that MSMEs in developing countries, especially Turkey, recommend that managers' financial literacy levels increase with financial training. Managers with a higher level of financial literacy show greater participation in financial markets. Nunoo and Andoh [10] find better financial literacy can provide benefits for SMEs in increasing demand for financial services, more savings, better risk management, increased intermediation, and accelerating financial development. Drexler *et al.* [23] revealed that simpler training and practical rules can produce improvements that are economically meaningful to SMEs. Training that is in accordance with basic financial needs is more appropriate and efficient for economic development and business growth of MSMEs. Companies including SMEs can rely on dynamic capabilities such as financial literacy, which can help turn resources into various objectives such as the creation, expansion, and modification of resources [24]. The study explains the relationship between financial literacy and the growth of MSME businesses. Maximum mastery of financial literacy tends to increase business growth of MSMEs. Not all taxpayers including MSMEs

can understand the rules and procedures for implementing correct tax reporting due to a lack of understanding of tax regulations [25]. Most SMEs feel that the taxation system is unfair because SMEs must pay the same amount as large companies so that the Government needs to simplify or create a taxation system that is suitable for SMEs [13]. High tax compliance has an impact on the ease of MSME taxpayers to become government partners so that it will increase sales (business growth). Conversely it can also increase costs so that it slows business growth. Research on tax relations with business growth is carried out by [11]. The findings are that SMEs are still experiencing various difficulties to increase the growth and development of their business, especially in financing. Tax is one of the considerations in determining the type of financing so that when the taxation literacy is good, the growth of the company will also increase.

#### IV. CONCLUSION

Based on the results of the analysis and discussion it can be concluded that taxation literacy and performance

and business growth have a significant linear relationship. While taxation literacy and competitive advantage have no significant linear relationship. Similarly, financial literacy and performance, business growth and competitive advantage do not have a significant linear relationship.

The results of the research on mapping MSMEs are very useful for policy makers to encourage in advancing MSMEs. The understanding of MSMEs on financial literacy will encourage MSMEs to operate more effectively and efficiently. The low level of education of MSME entrepreneurs requires government intervention in an effort to increase the awareness of MSMEs in understanding financial literacy.

MSMEs are very large economic actors in Indonesia. Business people from the MSME sector reached 99%, but the contribution of MSMEs through paying taxes to the State was still low. This can occur because the understanding of tax literacy is still low. This research is expected to provide input to the government in order to increase the participation of MSMEs in state revenues through recipients from the tax sector

#### APPENDIX A PERCEPTION OF MSME ON FINANCIAL LITERACY

No.	Indicator	Value					Average	Comment
		SA	A	N	D	SD		
1	Separation of assets, liabilities, revenues, and expenses between individuals and companies	15	124	60	4	0	3.74	High
2	Record each transaction	10	144	45	6	0	3.77	High
3	Financial statements are made routinely	5	96	81	6	1	3.52	High
4	Use of accounting programs	0	52	102	16	1	3.20	Medium
5	Financial statements have many benefits	0	140	45	10	1	3.65	High
6	Financial statements are not made	0	36	30	58	8	2.71	Medium
7	Recording is difficult and increases costs	0	72	51	34	4	3.19	Medium
8	Financial information is correct / accurate	0	92	78	14	0	3.42	High

#### APPENDIX B PERCEPTION OF MSME ON TAX LITERACY

No.	Indicator	Value					Average	Comment
		SA	A	N	D	SD		
1	Benefits of having a NPWP	5	76	99	6	0	3.43	High
2	Knowing taxation obligations	0	88	81	12	1	3.41	High
3	Ability to calculate, pay, report tax	0	64	87	18	2	3.25	Medium
4	Knowledge when paying and reporting taxes	0	96	60	18	3	3.41	High
5	Benefits of not paying taxes	5	28	36	62	5	2.75	Medium
6	Knowledge of ways to avoid taxes	5	32	57	44	6	2.90	Medium

#### APPENDIX C PERCEPTION OF MSME ON PERFORMANCE

No.	Indicators	Value					Average	Comment
		SA	A	N	D	SD		
1	Work realization is in accordance the plan	10	156	33	6	1	3.82	High
2	Work errors cause repetition	10	108	48	18	2	3.57	High
3	Sales growth occurred	20	132	42	10	0	3.79	High
4	There is a decrease in fixed costs	35	92	48	18	1	3.73	High
5	Anticipate production because demand increases	25	120	51	6	1	3.80	High
6	Guaranteed timeliness to customers	35	140	27	6	2	3.95	High
7	Suitability of the product with the specifications offered	30	124	45	8	0	3.85	High

## APPENDIX D PERCEPTION OF MSME ON BUSINESS GROWTH

No.	Indicators	Value					Average	Comment
		SA	A	N	D	SD		
1	Achievement of break-even point	10	80	84	10	1	3.48	High
2	Consumer satisfaction tracking	5	108	72	6	1	3.57	High
3	Employee / manager satisfaction tracking	10	124	63	2	1	3.70	High
4	The number of employees increases	15	92	72	10	1	3.58	High
5	The number of assets increases	10	124	60	4	1	3.69	High
6	Amount of capital increases	5	152	42	6	0	3.76	High

## APPENDIX E PERCEPTION OF MSME ON COMPETITIVE ADVANTAGE

No.	Indicators	Value					Average	Comment
		SA	A	N	D	SD		
1	The product quality is the same as the lower price	15	104	66	8	1	3.64	High
2	Products provide better benefits	25	168	27	0	0	3.99	High
3	Prices match to customer expectations	35	140	42	0	0	3.97	High
4	More quality products	30	156	33	0	0	3.99	High
5	Well standardized products	30	156	33	0	0	3.99	High
6	Products match to customer requirements	30	140	42	2	0	3.93	High
7	Services easily accessible to customers	35	128	51	0	0	3.93	High
8	Faster service	35	128	51	0	0	3.93	High
9	Attention to after-sales service	30	120	57	0	1	3.86	High
10	Lower production costs	15	96	57	20	0	3.56	High

SA = Strongly Agree; A = Agree; N = Neutral; D = Disagree; SD = Strongly Disagree

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