(REVIEW ARTICLE)

Analysis of the application of financial management to the profitability of MSMES through debt management of MSME Players in Kwala Serapuh Village, Langkat

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Abstract

This study aims to analyze the effect of financial management implementation on the profitability of Micro, Small and Medium Enterprises (MSMEs) through debt management. The case study was conducted on MSME players in Kwala Serapuh Village. Good financial management is key to the sustainability and success of a business, especially MSMEs that have limitations in terms of capital and resources. This research uses quantitative methods by distributing questionnaires to MSME actors in Kwala Serapuh Village. The number of samples in this study were 50 respondents of MSME actors. Data analysis was carried out using the Partial Least Square (PLS) method using SmartPLS version 4 software. PLS is one of the methods of solving Structural Equation Modeling (SEM). The results showed that the variable of financial management implementation has a positive and significant influence on debt management. The variable of financial management implementation has a positive and significant influence on the profitability of MSMEs. The debt management variable has a positive and significant influence on the profitability of MSMEs. The variable of financial management implementation on MSME profitability through debt management has a positive and significant influence on MSME profitability. The debt management variable can be influenced by the application of financial management by 76.1% and the remaining 23.9% is influenced by other variables outside those studied. While the MSME profitability variable can be influenced by the application of financial management and debt management by 50.9% and the rest is influenced by other variables outside the study.

Keywords: Financial Management Implementation; Profitability; MSMEs; Debt Management; Kwala Serapuh Village

1. Introduction

The impact of the COVID-19 pandemic has shaken the family economy in a simple scope and the country's economy in a broader scope. Since 2015, the government has launched the One Village One Billion program with a total budget of IDR 20.76 trillion. The purpose of the policy is to accelerate village development [1]. Many creative economies that play an important role in the national economy have failed or collapsed. When the country's economy is disrupted by the COVID-19 pandemic, it is MSMEs that play an important role in stabilizing conditions. MSMEs must continue to be encouraged so that they can continue to be the driving force of the country's economy.

MSMEs play an important role in a country's economy because they contribute significantly to economic growth, job creation, and income distribution. MSMEs contribute to Indonesia's Gross Domestic Product (GDP) by more than 60% or around IDR 8,573 trillion annually. In addition, MSMEs also account for 97% of Indonesia's total workforce or 116 million people. Since the role of MSMEs is crucial to the Indonesian economy, knowing the size and growth rate is very important. MSMEs often face challenges in increasing their competitiveness in an increasingly competitive marketn[2].

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Financial management is very important for MSMEs to maintain financial conditions and performance in order to continue to survive in all changing economic situations, especially in a pandemic era like this. MSMEs are expected to manage financial management carefully, both in managing income, expenses, budgeting, and sales. In reality, skills in financial management in MSMEs are considered trivial and ignored.

High-quality labor is available in micro, small and medium enterprises (MSMEs), which can help reduce the negative impact of the global economic downturn on society [3]. Human resources are required to further improve their competence so that they can be creative and also innovate in order to spur the country's economic development in all fields [4] in [5].

In addition to capital constraints, limited management knowledge is also a limiting factor in improving the performance of MSMEs [6]. This is because MSME business actors prioritize the production and marketing processes, and often combine personal and business assets [7].

Proper financial management is one of the key aspects in the success of MSMEs. The ability to plan, manage and allocate financial resources wisely can substantially affect their profitability. The implementation of good financial management is carried out in order to manage finances properly and to review the sources of income and expenses in the business. However, MSME players, which are still dominated by micro and small businesses, often ignore this. Every business must at least know how much its business operating costs are, how much profit is earned, and how much capital is used for business. Thus, business owners can also evaluate the ability and capacity of their business so that business development planning can be determined based on the recording data.

[8] states that there are four major obstacles that must be faced by MSME actors, namely limited working capital, human resources, product innovation and technology. In fact, in the field, what still happens a lot is why MSMEs do not develop is not because of capital / capital problems but in the financial management of MSMEs themselves. In general, MSME actors only make simple records in the form of income and expenses. The result is that the records do not reflect the actual financial condition of the business.

Because if the financial management of MSMEs does not run well, it will hamper and also have an impact on the financial performance of the MSME company and automatically the profitability of the company will decrease. [9] also stated the same thing that financial management is one of the problems that is often overlooked by business people. micro, especially with regard to the application of correct financial management and accounting rules. In the financial management of MSMEs or companies, there are several financial management processes that must be carried out. According to [10] states that there are processes and stages of financial management, namely planning (financial forecasting), implementation (planning and budgeting), and financial control.

Every company that carries out its operational activities must always need funds. The need for funds is used to finance investment needs and to meet the company's daily operational needs [11] in [12]. Sources of funding come from internal capital or external capital, internal capital comes from retained earnings or own capital while external capital comes from debt [12].

Good debt management will help MSMEs utilize financing to develop their business without getting entangled in financial problems. Debt management is also a factor that can play an important role in the success of MSMEs. Well-managed debt can provide a source of funding for business growth and development, but uncontrolled debt can burden MSMEs with high interest and installment burdens, which can undermine their profitability.

Many MSMEs do not survive long due to improper financial and debt management. Improper financial management also results in incorrect cost of goods sold being set. The impact is that MSMEs experience losses and result in bankruptcy. Therefore, financial management by implementing proper financial management is needed as a solution to business financial management problems.

2. Literature Review

2.1. Micro, Small and Medium Enterprises

In this country, Micro, Small and Medium Enterprises (MSMEs) have a fairly important position because of their role in the economic world. Its existence cannot be denied by the community because through MSMEs there is a distribution of community income. The birth of a new work realized by MSME actors is in line with the government's efforts to maintain and develop aspects derived from community culture [13]. Micro, Small and Medium Enterprises (MSMEs)

have several different definitions in each literature according to agencies or institutions and even laws. According to Tambunan in states that MSMEs are productive business units that stand alone, which are carried out by individuals or business entities in the economic sector.

2.2. Financial Management

Etymologically, the word management comes from the Old French menagement, which means the art of carrying out and organizing. In English, the word management comes from the word to manage which means to manage, guide, and supervise. If taken in Italian, it comes from the word maneggiare which means controlling, especially controlling horses. Meanwhile, in Latin, the word management comes from the word manus which means hand and agere which means to do, when combined it means to handle [14].

Financial management is one of the important activities for the company, the performance of a company or organization is good if its financial management is also good. Financial Management according to [15] is the activity of planning, budgeting, examining, managing, controlling, searching and storing funds owned by an organization or company. Meanwhile, according to James Van Horne and John Wochowie, defines "Financial Management is all activities related to the acquisition, funding, and management of assets with several objectives." Financial management is a very important activity carried out by a company to determine the condition of the company.

2.3. Financial Management

Conceptually, financial management refers to the concept of financial management, where [16] in [17] explains that the concept of management is more directed at how to achieve organizational goals by applying how to pay attention to business plan issues, then organizational bodies, human resources, also regarding resource mobilization and leadership in supervision. Meanwhile, the concept of finance as explained by [18] in [17] that financial management functions in terms of finding business capital in the context of business development, then allocating business capital so as to get what the business expects in the form of profit.

Financial management according to [19] is a combination of science and art that discusses, studies and analyzes how a financial manager uses all company resources to raise funds, manage funds and distribute funds with the aim of being able to bring profit or prosperity to shareholders and the sustainability of the company's business. Financial management is also defined as the process of finding funds for the company by minimizing costs, as well as efficiently using and allocating funds to maximize company value [18].

2.4. Profitability of MSMEs

The profitability of Micro, Small and Medium Enterprises (MSMEs) is a key indicator in measuring the financial success of a company. Profitability is the company's ability to earn profits related to sales, total assets, and own capital, [20]. Profitability is the level of net profit that can be achieved by the company when running its operations.

Profitability or income is the result of business obtained from the company's sales activities, both in the form of goods and in the form of services. The income earned from the company can be in the form of income earned from the company on the main business and income earned from side businesses or other income, it can be from income earned from deposit interest from banks [21]. The profitability of a company shows the ratio between profit and assets or capital that generate that profit. In other words, profitability is the ability of a company to achieve profit. Most MSMEs depend on profitability to maintain operations and growth.

2.5. Debt Management

Debt management is the key to success for MSMEs in building the sustainability of their businesses. According to [22] MSME debt management is the efforts and policies carried out by micro, small and medium enterprises in managing and managing their debts properly."

MSME debt management includes planning, organizing, directing, and supervising financial resources derived from debt. Debt, if managed properly, can be a strategic source of financing for the growth of MSMEs [23]. MSME debt management is a process that involves planning and controlling the financing that comes from financial obligations. MSMEs need to understand that effective debt management can improve competitiveness and business sustainability [24].

Debt management is one of the external funding sources used by companies to fund company activities. According to [25] debt is all the company's financial obligations to other parties that have not been fulfilled, where this debt is a

source of funds or company capital from creditors. Debt is a sacrifice of future economic benefits that may arise due to current obligations. In making decisions on the use of debt, it is necessary to consider the fixed costs arising from the debt, namely in the form of debt interest which causes an increase in financial leverage.

3. Material and methods

3.1. Research Approach

This research method is a quantitative research method using research data in the form of numbers and analysis using statistics. This type of research is causal research with a quantitative approach, which is research aimed at testing theories, building facts, showing relationships between variables, providing statistical descriptions, drawing and predicting the results with the aim of knowing the effect between one variable and another [26].

3.2. Population and Sample

According to [27] population can be interpreted as a generalization area consisting of objects and subjects that have certain qualities and characteristics set by researchers to study and then draw conclusions. The population in this study were SMEs from the Kwala Serapuh Langkat village community as many as 120 respondents.

While the sample according to [27] states that the sample is part of the number and characteristics possessed by the population. In this study, researchers chose random sampling techniques or random sampling / probability sampling. Where the techniques and samples that researchers use are random, without looking at the sample on the basis of strata or social status in any way. According to[27]Probability sampling is a sampling technique that provides equal opportunities for each element (member) of the population to be selected as a sample member. In this study, researchers determined a sample of 50 respondents of MSME actors.

3.3. Data Analysis Method

Data analysis was carried out using the Partial Least Square (PLS) method using SmartPLS version 4 software. PLS is one of the methods of solving Structural Equation Modeling (SEM) which in this case is more compared to other SEM techniques. SEM has a higher level of flexibility in research that connects theory and data, and is able to conduct path analysis with latent variables so that it is often used by researchers who focus on social science. Partial Least Square (PLS) is a fairly powerful analysis method because it is not based on many assumptions. Data also does not have to be multivariate normal distribution (indicators with categorical, ordinal, interval to ratio scales can be used in the same model), the sample does not have to be large [28].

4. Results and discussion

4.1. Descriptive Statistical Analysis

Descriptive statistics are statistics used to analyze data by describing or describing the data that has been collected without intending to make general conclusions or generalizations [29]. Descriptive statistical analysis consists of mean, median, maximum, minimum, and standard deviation values.

Table 1 Descriptive Statistical Analysis Test Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
P. Financial Management	50	4	20	15,89	3.818
Debt Management	50	3	11	4.13	2.143
MSME Profitability	50	4	18	7.19	3.573
Valid N (listwise)	50				

From the results of the calculation using the descriptive statistical analysis test above, it can be interpreted that the number of observations (N) is 50 MSMEs. Then the minimum score contained in the table above shows the lowest value used in the study. And with the maximum score contained in the table indicating the highest value of the research.

Meanwhile, the mean score is used to measure the average size of the study and the standard deviation score is used to determine which value has the standard deviation in the study.

4.2. Evaluation of the Measurement Model (Outer Model)

Outer Model is often called (measurement model) specifying the relationship between the variables under study and their indicators. The outer model is used to assess indicator variables that reflect a construct. Several criteria are used in conducting data analysis techniques, one of which is by using the SmartPLS application. Outer model testing includes validity and reliability tests.
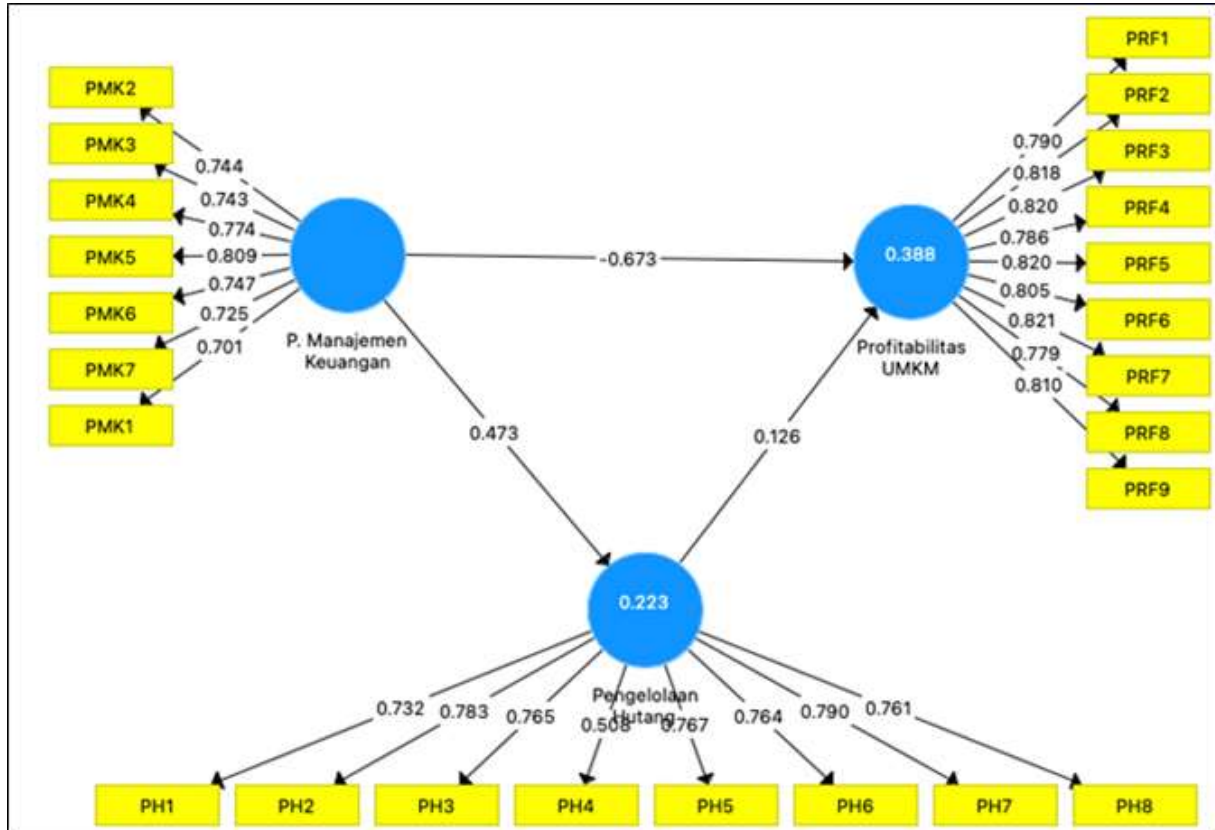

Source: SmartPLS 3.0 Data Processing Results, 2024

Figure 1 Measurement Model Evaluation Results (Outer Model)

Based on Figure 4.1, it can be seen that there is 1 invalid item, namely PH4 because it has a loading value <0.60 (0.508), meaning that the item will be removed or eliminated.

4.2.1. Validity Test

The validity test is used to measure whether the data collected is valid data or not. This test aims to assess whether the instrument actually measures the intended construct or variable in an accurate and reliable way. The validity testing model in this study is measured using convergent validity and discriminant validity testing.

4.2.2. Convergent Validity

Convergent validity is one of the tests that shows the relationship between indicators and their latent variables. In the measurement of latent variables, it is determined by the loading factor value. Individual indicators are considered reliable if they have a correlation value above 0.7. However, in scale development stage research, loading of 0.50 to 0.60 is still acceptable [28]. In this study, a loading factor limit of 0.60 will be used.

Table 2 Value Outer Loading

	P. Financial Management	Debt Management	MSME Profitability
PH1		0.734	
PH2		0.784	
PH3		0.759	
PH5		0.760	
PH6		0.764	
PH7		0.797	
PH8		0.766	
PMK1	0.701		
PMK2	0.744		
PMK3	0.743		
PMK4	0.774		
PMK5	0.809		
PMK6	0.747		
PMK7	0.724		
PRF1			0.790
PRF2			0.818
PRF3			0.819
PRF4			0.786
PRF5			0.820
PRF6			0.805
PRF7			0.821
PRF8			0.779
PRF9			0.810

Source: SmartPLS 3.0 Data Processing Results, 2024

The processing results using SmartPLS seen in table 4.2 can explain that the outer model value after elimination or the correlation between constructs and latent variables has met convergent validity because it has a loading factor value of more than 0.60.

4.2.3. Discriminant Validity

Discriminant validity aims to determine whether the construct has adequate discriminant, namely by comparing the loading value on the intended construct must be greater than other values [30]. In the smart PLS 3.2.9 application, the discriminant validity test uses the cross loadings and Fornell Larcker values [31].

To evaluate discriminant validity, researchers consider factor cross-loadings and the fornell-larcker criterion. Fornell-larcker criterion is interpreted as a measure that compares the square root of the AVE value with the latent variable relationship. Thus, the square root value of each AVE construct must be greater than the value of its correlation with other constructs. The results of discriminant validity testing can be seen in table 4.3 below:

Table 3 Result Fornell Larkcer Discriminant Validity

	P. Financial Management	Debt Management	ProfitabilityMSMEs
P. Financial Management	0.750		
Debt Management	0.475	0.767	
MSME Profitability	-0.613	-0.195	0.805

Source: SmartPLS 3.0 Data Processing Results, 2024

From the results of the data processing above, it is obtained that all indicators have a higher correlation coefficient number for each variable itself compared to the correlation coefficient number of indicators with other variables, so in the end that each indicator in the block is a variable shaper or construct in that column. Thus it can be concluded that all constructs or latent variables already have good discriminant validity.

Discriminant validity can also be shown by looking at the Average Variance Extracted (AVE) value for each indicator, which is required to be> 0.5 for a good model. The following are the results of the discriminant validity test with square root AVE as follows:

Table 4 Value Avarage Variance Extracted (AVE)

	Average Variance Extracted (AVE)
P. Financial Management	0.562
Debt Management	0.588
MSME Profitability	0.649

Source : SmartPLS 3.0 Data Processing Results, 2024

Based on the test results in table 4.4, the results show that Discriminant validity is achieved because the Square Root AVE value for each construct is greater than 0.5, so all variables have met the validity test requirements.

4.2.4. Reliability Test

Composite Reliability

Composite reliability is a value result which is used to test the reliability value between the indicators of the constructs that make up it or how powerful or in accordance with the field. The variable value is said to be good if the composite reliability value is 0.7 and the Cronbach's alpha value is recommended above 0.7 [28].

Table 5 Composite Reliability Value

	Composite Reliability
P. Financial Management	0.900
Debt Management	0.909
MSME Profitability	0.943

Source: SmartPLS 3.0 Data Processing Results, 2024

Based on table 4.5 that the results of composite reliability testing show a value> 0.6 which means that all variables are declared reliable.

Cronbach's Alpha

Cronbach's Alpha is a reliability test that is carried out to strengthen the results of composite reliability. A variable can be declared reliable if it has a Cronbach's alpha value> 0.7.

Table 6 Cronbach's Alpha Values

	Cronbach's Alpha
P. Financial Management	0.872
Debt Management	0.886
MSME Profitability	0.933

Source: SmartPLS 3.0 Data Processing Results, 2024

Based on table 4.6, it can be seen that the Cronbach alpha value of each research variable is> 0,.7. Thus these results can show that each research variable has met the requirements of the Cronbach alpha value, so it can be concluded that all variables have a high level of reliability.

4.3. Structural Model Evaluation (Inner Model)

An overview of the relationship between latent variables based on substantive theory is obtained from the inner model. The following describes the components of evaluating the structural model in PLS.

4.3.1. R-Square

Structural model assessment is first carried out by assessing R-Square for each endogenous latent variable as the predictive power of the structural model. Changes in the R-Square value can be used to explain the effect of certain exogenous latent variables on endogenous latent variables whether they have a substantive effect.

Table 7 R Square

	R-square
Debt Management	0.761
MSME Profitability	0.509

Source: SmartPLS 3.0 Data Processing Results, 2024

Based on table 4.7 shows that the R-square value for the Debt Management variable is 0.761. The results show that 76.1% of the debt management variable can be influenced by the application of financial management and the remaining 23.9% is influenced by other variables outside those studied. Meanwhile, the MSME profitability variable obtained an R-square value of 0.509. These results indicate that 50.9% of MSME profitability variables can be influenced by the application of financial management and debt management, and the remaining 49.1% is influenced by other variables outside the study.

4.3.2. Hypothesis Testing

After the model as a whole and partially tested, the next stage is hypothesis testing. According to (Ghozali and Latan, 2020), hypothesis testing is done by looking at the T-statistic value compared to the T-table value = 1.96 at a significance level of p value = 0.05. If the T-statistic value> T-table, it can be concluded that the exogenous variables have a significant influence on the endogenous variables.

According to table 4.8, the path coefficient value is 0.550 with a t-statistic value of 4.811 greater than the t-table 1.96 and a p-value of 0.000 smaller than 0.05. So it can be said that the implementation of financial management has a positive and significant effect on debt management so that the first hypothesis can be accepted.

The second hypothesis test is the effect of financial management implementation on MSME profitability, which shows a path coefficient value of 0.619 with a t-statistic value of 3.416 greater than the t-table 1.96 and a p-value of 0.001 smaller than 0.05. So it can be said that the application of financial management has a positive and significant effect on the profitability of MSMEs so that the second hypothesis can be accepted.

The third hypothesis test is the effect of debt management on MSME profitability which shows a path coefficient value of 0.380 with a t-statistic value of 3.482 greater than the t-table 1.96 and a p-value of 0.003 smaller than 0.05. So it can be said that debt management has a positive and significant effect on the profitability of MSMEs so that the third hypothesis can be accepted.

Table 8 Hypothesis Test Results

Variable	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics (|O/STDEV|)	P values
P. Financial Management -> Debt Management	0.550	0.592	0.114	4.811	0.000
P. Financial Management -> Profitability of MSMEs	0.619	0.630	0.181	3.416	0.001
Debt Management->Profitability of MSMEs	0.380	0.342	0.109	3.482	0.003
P. Financial Management -> Debt Management->Profitability of MSMEs	0.713	0.721	0.070	2.137	0.001

Source: SmartPLS 3.0 Data Processing Results, 2024

The fourth hypothesis test is the effect of financial management implementation on MSME profitability through debt management which shows a path coefficient value of 0.713 with a t-statistic value of 2.137 greater than the t-table of 1.96 and a p-value of 0.001 smaller than 0.05. So it can be said that the application of financial management to the profitability of MSMEs through debt management has a positive and significant influence on the profitability of MSMEs so that the third hypothesis can be accepted.

5. Discussion

5.1. The implementation of financial management affects debt management

Good financial management is key for MSMEs to run their businesses efficiently and sustainably. With careful financial planning, organized recording of transactions, and adequate analysis of financial statements, MSMEs can clearly understand their cash flows, identify opportunities and risks, and make informed decisions in managing debt. Wise debt management, such as choosing appropriate funding sources, setting realistic repayment schedules, and maintaining healthy debt ratios, can prevent MSMEs from the risk of bankruptcy and allow them to better grow and develop. MSMEs must ensure that they have sufficient cash flow to repay debt installments on time. Delays or defaults can lead to fines and additional costs, which will ultimately reduce profitability.

5.2. The implementation of financial management affects the profitability of MSMEs

Good financial management helps MSMEs in optimizing the use of limited financial resources. By planning budgets, recording cash flows, managing payables and receivables, and analyzing financial reports regularly, MSME players can better monitor their financial conditions. This allows them to make the right decisions in allocating funds, controlling expenses, and improving operational efficiency. In addition, good financial management also helps MSMEs identify profitable investment opportunities and avoid unnecessary financial risks. As such, MSMEs can increase revenue, minimize costs, and ultimately improve their business profitability significantly.

5.3. Debt management affects the profitability of MSMEs

An optimal debt structure can also affect MSME profitability. MSMEs need to consider the type of debt (short-term or long-term), interest rates, and other loan terms. Choosing a debt structure that suits the needs and capabilities of MSMEs can help minimize funding costs and increase profitability. Good debt management also involves periodic monitoring and evaluation. MSMEs should monitor debt-to-asset or equity ratios, as well as analyze how debt affects their financial performance. By making appropriate adjustments and debt management strategies, MSMEs can maximize profitability while effectively managing debt risk. Therefore, wise and well-planned debt management is key to ensuring that debt can support the growth and profitability of MSMEs, rather than becoming a burden that can hinder the success of their business.

5.4. The implementation of financial management affects the profitability of MSMEs through debt management

Effective management in an MSME (Micro, Small and Medium Enterprises) plays an important role in ensuring business success and profitability. One crucial aspect in implementing good management is debt management. Debt can be an important source of funding for MSMEs, but if not managed wisely, it can become a burdensome burden and threaten business continuity.

In the context of debt management, effective management involves careful planning, sound decision-making, and close monitoring. The first step is to identify capital requirements and evaluate available funding sources, including debt. Management should consider the cost of borrowing, repayment terms, and the impact on the company's cash flow. After deciding to take on debt, management must ensure that the funds are used efficiently and productively. A wise investment in fixed assets, inventory, or business expansion can generate higher returns and increase the profitability of MSMEs. However, inappropriate use of funds can result in an uncontrollable debt burden and hamper business growth.

Further, management must closely monitor the ability of MSMEs to repay debts. This involves careful management of cash flow, timely scheduling of debt repayments, and ensuring that business income is sufficient to meet debt obligations. Delays in debt repayment can result in higher penalties and interest, which will ultimately reduce the profitability of the MSME. In the long run, good debt management can help MSMEs maintain a good credit standing and access to more favorable sources of funding in the future. This can facilitate sustainable business growth and increase profitability.

Therefore, the implementation of effective management in MSMEs, particularly in managing debt wisely, can play an important role in improving business profitability. Careful and disciplined management in debt-related planning, decision-making and monitoring can ensure that MSMEs are able to optimally utilize funding and avoid excessive debt burden, thereby supporting long-term growth and profitability.

6. Conclusion

- That MSME actors separate personal finances and business finances to facilitate management and supervision. And compile a budget and do good financial planning to manage cash flow and optimize the use of funds.
- MSME actors should analyze their needs and ability to pay before taking out debt. Use debt only for productive purposes, such as investment or business expansion.
- MSME players to participate in training or capacity building programs to improve managerial and financial skills.
- MSME players should use financial or accounting applications to facilitate financial management and decision-making.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

Statement of informed consent

Informed consent was obtained from all individual participants included in the study.

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