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Financial Literacy, Digital Literacy and Financing Preferences Role to Micro and Small Enterprises' Performance

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ABSTRACT

Purpose: This research aims to examine financial literacy, digital literacy and financing preferences influences toward micro and small enterprises (MSEs) performance

Design/methodology/approach: This research quantitative method and SmartPLS were employed to test the hypotheses

Findings: financial literacy and digital literacy has significant positive influence to MSEs performance. External financing has negatively significant influence toward performance. Financial literacy is positively significant to internal financing.

Research limitations/implications: Due to limitations of response rate, this research model for external financing preferences results limited adjusted r-square. We suggest that next research can expand the samples, and variables.

Practical implications: This research implies that MSEs need literacy supports to get reliable information about market access, analyzing financial performance and budget, government policies which affect their financial condition, from universities and governments as policy-maker.

Originality/value: There were limited studies which examining MSEs performance for surviving in crisis period. This research provides data about financial literacy, digital literacy and financing preferences to enhance MSEs performance.

Paper type: Research paper

Keyword: *financial literacy, digital literacy, external financing preferences, internal financing preferences, MSMEs performance*

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Introduction

Micro, Small and Medium Enterprises (MSMEs) are a key factor in economic growth in both developing and developed countries, playing an important role in economic growth, innovation and prosperity.(Kulathunga et al., 2020; Prihatiningtias & Wardhani, 2021; Sharma, 2019). MSMEs in Indonesia absorb more than 117 million workers or 97% of the workforce absorption of the business world and contribute about 61% of Indonesia's GDP.

However, Covid-19 pandemic has impact MSMEs performance. LIPI Research Center reported that 94.69% of MSMEs respondents experienced a decline in sales, across micro, small and medium business (LIPI, 2020). More than 75% declining of sales was experienced by 47.44% of MSMEs which run offline-sales or physical sales, and 40.17% experienced by online sales businesses, as well as 39.41% of businesses which run offline as well as online sales. They were also has to bear increased operating costs, especially raw materials, transportation, labor, and others.

Indonesia Government strive MSMEs to adapt the crisis. There was National Economic Recovery (PEN) policy for MSMEs during the pandemic. These policies include tax incentives (Finance Minister Regulation no. PMK-44/PMK.03/2020), credit restructuring and relaxation of credit administration, and credit interest subsidies

(Coordinating Ministry for Economy regulation no.8/2020). To relief MSMEs credit and administrative, there was government aid in cash transfer for MSMEs. Based on Minister of Cooperatives and Small and Medium Enterprises Regulation No. 6 of 2020 article 3, the cash transfer was Rp 2,400,000, - for each eligible micro entrepreneurs. Ministry of Home Affairs and Ministry of Finance support MSMEs in local government and published Joint Degree no. KMK 177/KMK.07/2020.

Financial capital are often the main obstacle for MSMEs to survive and grow (Baker et al., 2020; Handayani, 2015; Kanojia et al., 2020; Rao & Kumar, 2018; Sohilaw et al., 2020). Many MSME capital is limited to from internal companies. Enrico Tanuwidjaja, Economist of UOB Indonesia, in November 2020 stated that only 26% of MSMEs had access to credit from banks (Endarwati, 2020) . Actually, MSMEs have choices of capital fund resource, it can be from retained earnings, short-term loans or length, equity and others (Kumar & Rao, 2015).

There is relationship among financing preferences and the financial performance of MSMEs (Jodua & Mostapha, 2020; Ohman & Yazdanfar, 2017). Short-term debt and long-term debt has significant negative influence toward MSME profitability and liquidity (Ohman & Yazdanfar, 2017). It implies that increasing debt will decrease MSMEs performance. However, Jodua & Mostapha (2020) concluded that access to debt has a positive effect on the financial performance of MSMEs.

The financing preferences are differ among MSMEs. Based on a survey in India, Baker et al., (2020) concluded that MSMEs in India choose informal financing sources, such as from family, friends, acquaintances, and money lenders – as loan or credit sales. Meanwhile, their preferred source of external financing is in long-term debt or capital loans (external equity) from the government and from financial institutions. In Cameroon, Mandiefe & Bafon (2015) MSMEs mostly use internal financing from retained earnings and owners' equity, because of the characteristics of MSMEs owned by individuals or families. Likewise in Italy, MSMEs prefer to use internal financing (Ohman & Yazdanfar, 2017)

MSMEs' capital structure significantly affects MSMEs performance (Baker et al., 2020; Kumalasari & Asandimitra, 2019; Siswanti, 2020; Tamara et al., 2019). Adequacy of capital can guarantee MSMEs to be able to fund their operations, thus enabling MSMEs to survive, generate profits and expand their business. Using data at pre-pandemic period, Baker et al. (2020); Kumalasari & Asandimitra (2019), stated that MSMEs preferred internal sources of capital. Micro and small entrepreneurs choose to use their retained earnings. They are maximizing income, and manage their profits for business development. This internal source of capital is considered has minimum risk, such as interest expenses and also social risks caused by contact with external and legal parties, which have the potential to disrupt financial stability in the future. In Korea, MSMEs, internal financing is significantly positive for MSME performance, while other sources of capital are significantly negative for MSME performance (Kim & Cho, 2020). Internal financing and corporate credit are more efficient than institutional financing. During Covid-19 pandemic, (Tamara et al., 2019) and (Bannier & Heyden (2019) stated that leverage had a significant negative effect on the profitability of MSMEs. Tamara et al (2019) prove that the presence of high debt can cause MSME profitability to be low, and vice versa. This result indicates that during the Covid-19 period, MSMEs were more depend on internal financing to survive.

Financial literacy is important to improve logical thinking when make financial decision. Ripain et al., (2017) argue that MSME owners or managers who have good financial literacy will be able to act logically and rationally to make financial decisions, including in determining appropriate financing preferences for the MSMEs they lead. Sohilaw et al., (2020) stated that financial literacy has a significant influence on financial capital, the higher the owner's financial literacy, the more opportunities for SMEs to obtain financial capital. Delic et al., (2016) Baker et al., (2020) state that entrepreneurs are able to make financing decisions based on their financial knowledge. In small and growing businesses, entrepreneurs with high financial literacy tend to choose internal financing, and mid-level companies began to choose external financing. Financial Literacy also has significant positive effect on Financial Performance (Agyapong & Attram, 2019; Kulathunga et al., 2020). MSME entrepreneurs who have good financial literacy are able to make better financial management decisions, so they can maintain or improve their company performance.

In this era, technology contributes MSME owners for accessing various financing sources, so that digital literacy has to be concerned. Digital literacy opens up opportunities for MSMEs to obtain information and access to financial capital sources. Previous studies concluded that digital literacy reduces business uncertainty, reduce transaction costs and improve the performance of SMEs in Sri Lanka (Ranatunga et al., 2020) Higher digital literacy will improve SME performance and ERM practices (Kulathunga et al., 2020). During the Covid-19 period, Prihatiningtias & Wardhani (2021) proved that the use of cloud-based point-of-sales applications by MSMEs had a significant positive effect on performance. With adequate information, MSMEs can identify what financing sources are suitable for their business (Nguyen & Luu, 2013).

This research aims to analyze financial literacy, digital literacy, and financing preferences influence toward MSMEs' performance. Previous studies show that there are various conclusions about financial literacy, digital literacy and financing preferences for determining MSMEs performance. Our hypotheses are (1) financial

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literacy and digital literacy affect financing preferences; and (2) financial literacy, digital literacy and financing preferences affect MSME performance. This research can enrich the literature on the MSMEs' financing or capital preferences and MSMEs' performance as well.

II. LITERATURE REVIEW

A. Knowledge-Based View (KBV) Theory

This theory is an extention of resource-based view (RBV) theory (Curado, 2006). It explains why performance differ among the firms and industries. RBV theory promoted by Penrose (1959) which stated that firm resources and capabilities influence firms performance. It means that firms need to possess valuable resources and capabilities to increase its performance. Despite of KBV is debated as a theory, the fact shows that information technologies (IT) has important role to support KBV theory of the firm (Alavi & Leidner, 2001). IT facilitates the firms to synthesize, enhance, and expedite large-scale intra- and inter-firm knowledge management. Knowledge-based view theory consider that knowledge is intangible resources. As intangible resources, knowledge usually difficult to imitate and complex. The heterogeneous knowledge bases and capabilities among the firms are major determinants for sustaining the competitive advantage and superior corporate performance.

B. Financial Literacy

Ripain et al. (2017) stated that financial literacy refers to a person's ability to handle financial problems and implies the ability to make good financial decisions, implementation and control. The OECD INFE (2019) defined that financial literacy of MSMEs as *"the combination of awareness, knowledge, skills, attitudes and behaviour that a potential entrepreneur or an owner or manager of a micro, small or medium sized enterprise should have in order to make effective financial decisions to start a business, run a business, and ultimately ensure its sustainability and growth"*.

C. Digital Literacy

According to Reddy et al., (2020), the terminology of digital literacy has emerged since 1960s when computer technology was born. It concluded that digital literacy terms developed from technology literacy term. Digital literacy is the ability to use the technologies which were efficient and appropriate to produce information with new insights. The digital literacy covers six components, they are (1) information literacy, which means capability to find, alocate, analyze, syntheses resources, evaluating credibility of information sources, abiding legal and ethical issues in digital platform; (2) computer literacy, which means understands how to use computer or digital devices, and also their applications; (3)media literacy, which means ability to access, analyse, evaluate and communicate information using digital devices; (4) communication literacy, which means ability to communicate effectively as individuals or work collaborative in group using internet; (5) visual literacy which means ability to use digital technology to"read" , interpret and understand the information presented in graphical or picture image and ability to convert information to visual representation; (6) technological literacy, which means ability of using digital technology to improve learning, productivity and performance.

D. Financing Preferences

Financing preference is the decision of management or company representatives to determine the source of company funds that describes the company's capital (Baker et al., 2020). Kumar & Rao (2015) argue that there are may factors which influenced financing preferences in MSMEs, such as owners' attributes, source of finance, and firm characteristics. They also stated that financing preferences has role for considering supply and demand analysis in financial ecosystems which important for macro-economic development.

E. Performance

The performance refer to the MSMEs' achievement in financial and non-financial point-of-view (Ranatunga et al., 2020; Santos & Brito, 2012) . In financial aspects, MSMEs' performance consists of profitability, assets or sales growth, and market value. In non-financial aspects or strategic performance, the performances consists of customers satisfactions, employee satisfactions, environmental performance and social performance.

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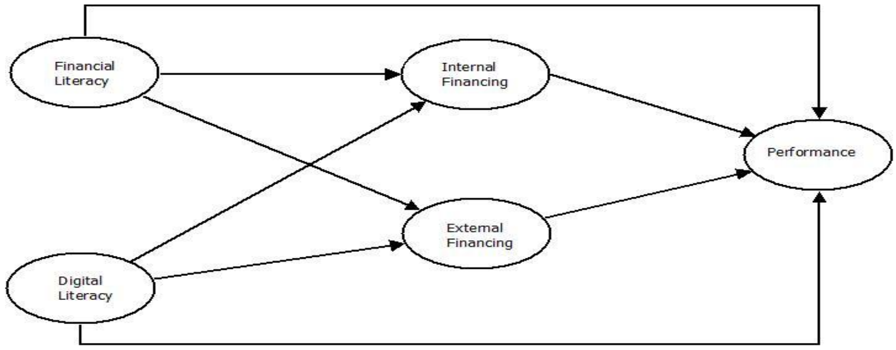
F. Research Model



III. METHODOLOGY

This research is a causality and quantitative research. Survey was conducted to gain data. We use questionnaires which developed based on previous studies. The population of research is MSMEs in Surabaya City, East Java. Sampling method was convenience sampling. Data measured by 4-points scale, and the questionnaires items shown at appendix 1. SmartPLS 3.0 was employed to test validity and reliability of instruments (outer model), and also for testing the hypotheses (inner model). Instrument validity was determined based on convergent validity and discriminant validity . This research is confirmatory research, so the rule of thumb, the instrument has valid when loading factor of latent variable and its indicators >0.7 (Latan & Ghozali, 2012). Reliability of instruments was determined by AVE value. Operational definition of variables are shown at Table 1.

Table 1 Research Variables

Operational Definition of Variables Variabel	*Indicators*
Financial Literacy *Ability to determine risk and benefit of financial product based on data*	*Ability to determine risk and benefit of savings and capital sources, ability to analyze impact of government policies to company's financial sustainability, ability of determining business profit and risk* *(OECD INFE, 2019; Sariwulan et al., 2020; Sharma, 2019)*
Digital Literacy *Ability to utilize digital media and determine accurate information in online media*	*Ability to utilize digital business features based on web or application, e-marketplace and e-banking, maintaining sales and customers using digital facilities, maintaining privacy and security of digital data, and determine accurate information from online media.* *(Ranatunga et al., 2020; Sariwulan et al., 2020)*
Financing Preferences *Attitude toward financial source alternatives as business capital*	*Preferences to internal and external source for business, preferences to short-term and long-term debt, preferences to non-collateral loan* *(Baker et al., 2020; Rita & Huruta, 2020)*
Performance *company's achievement in maintaining assets and ability to grow financially and non-financially*	*Profitability, return on investment, increasing asset value, maintaining customers, increasing customer number, ability to fund operating cost, and efficiency.* *(Rita & Huruta, 2020; Sariwulan et al., 2020)*

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III. RESULTS AND DISCUSSION

A. Demographic of Respondents

Sample was collected by convenience sampling. Due to covid-19 pandemic, the questionnaires were distributed through googleform to enterpreneur groups which consists of totally 452 enterpreneurs. Response rate was 25,27% (116 questionnaires). According to Table 2, our respondents are 81 (69,83%) women and 35 (30.17%) are men. They are mostly as business owner (88.8%), and there were 13 (11.2%) are managers. More than 50% of our respondents business field are in Food and Beverages (62 companies or 53.45% of samples). Government regulation no. 7/2021 stated that MSMEs categorized by its business capital excluded the land and buildings. There were 94.83% of our respondens as micro business which has capital (land and buildings are excluded) less than Rp.1.000.000.000, and 6 (5.17%) small business which has capital Rp 1.000.000.000 – Rp 5.000.000.000.

Table 2. Demographic of Respondents

Demography		*Amount*	*% of sample*
Gender	*Women*	*81*	*69.83*
	Men	*35*	*30.17*
Position	*Manager / Business-owner representatives*	*13*	*11.2*
	Business owner	*103*	*88.8*
Business field	*Web Design and Application*	*2*	*1.72*
	Architecture	*1*	*0.86*
	Fashion, Beauty/Beauty Salon	*16*	*13.79*
	Craft	*3*	*2.58*
	Food and Beverages	*62*	*53.45*
	Farming	*2*	*1.72*
	Health product: Jamu and Pharmacyst	*1*	*0.86*
	Others	*25*	*21.55*
	(grocery stores, construction, laundry, wedding decoration, photocopy and digital printing, furniture, car & motor wash, laundry, and thrift shop)		
Business capital (excluded land and buildings)	*<Rp 1.000.000.000*	*110*	*94.83*
	Rp1.000.000.000 – 5.000.000.000	6	5.17

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B. Validity and Reliability of Instruments

As Table 3 shows that the indicators that we use are valid, after deleted some indicators which have loading factors less than 0.7. Cross loading factor of construct indicators (original sample column) are more than 0.7 and all of indicators are significant with p-value less than 0.05. As shown at

Table 4, AVE value all of constructs are more than 0.5, so the outer model has met the requirements of convergent validity. The instruments also reliable as shown as Table 4 the Cronbach's Alpha values are more than 0.7, and the Composite Reliability values are more than 0.7 which means the instrument considered as reliable for this confirmatory research.

Table 3. Validity Test Result

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
FL01 <- Financial Literacy	0.79	0.788	0.054	14.594	0*
FL02 <- Financial Literacy	0.798	0.794	0.057	14.005	0*
FL03 <- Financial Literacy	0.788	0.779	0.059	13.337	0*
FL04 <- Financial Literacy	0.777	0.778	0.052	15.048	0*
DL01 <- Digital Literacy	0.851	0.852	0.055	15.357	0*
DL02 <- Digital Literacy	0.825	0.827	0.079	10.454	0*
DL03 <- Digital Literacy	0.906	0.898	0.032	28.463	0*
DL04 <- Digital Literacy	0.907	0.901	0.026	34.861	0*
FInt01 <- InternalFund	1	1	0.0	1	0*
FExt01 <- ExternalFund_	0.706	0.695	0.205	3.45	0.001*
FExt02 <- ExternalFund_	0.783	0.675	0.216	3.156	0.002*
FExt03 <- ExternalFund_	0.913	0.795	0.212	4.303	0*
FExt04 <- ExternalFund_	0.942	0.824	0.213	4.422	0*
FExt05 <- ExternalFund_	0.729	0.724	0.203	3.596	0*
FExt06 <- ExternalFund_	0.771	0.692	0.24	2.791	0.005*
Prf01 <- Performance	0.833	0.831	0.041	20.574	0*

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Prf02 <- Performance	*0.746*	*0.734*	*0.078*	*9.503*	*0**
Prf03 <- Performance	*0.793*	*0.785*	*0.058*	*13.733*	*0**
Prf04 <- Performance	*0.741*	*0.744*	*0.051*	*14.391*	*0**
Prf05 <- Performance	*0.721*	*0.718*	*0.076*	*9.46*	*0**
Prf06 <- Performance	*0.86*	*0.86*	*0.028*	*31.098*	*0**
Prf07 <- Performance	*0.877*	*0.874*	*0.031*	*28.615*	*0**
Prf08 <- Performance	*0.791*	*0.787*	*0.055*	*14.456*	*0**

*significant at α=5%
FL=Financial Literacy; DL=Digital Literacy; FInt=Internal Financing ; FEx=External Financing; Prf=Performance

Table 4. Reliability Test Result

	Cronbach's Alpha	*rho_A*	*Composite Reliability*	*Average Variance Extracted (AVE)*
Financial Literacy	*0.797*	*0.797*	*0.868*	*0.622*
Digital Literacy	*0.903*	*0.992*	*0.927*	*0.762*
Internal Fin	*1*	*1*	*1*	*1*
External Fin	*0.904*	*1.076*	*0.902*	*0.611*
Performance	*0.918*	*0.926*	*0.933*	*0.635*

C. Results

We provide statistics desriptive in Table 5. According to Table 5, respondents perceived that they have high financial literacy. The highest response mean is about determining risk in bank saving (mean=3.36), and the lowest is ability for determining risk and benefit in non-bank institutions investment (mean=3.095). In digital literacy, the respondents have higher perceived ability than financial literacy. The highest digital literacy mean score is ability to gain growth opportunity from digital media (mean=3,534). The lowest digital literacy is to determine information accuracy (mean=3.276). This implied that respondents attempt to utilize digital media in their business, and they also should pay some effort to make sure information accuracy.

The respondents prefer internal financing than external financing. This means the respondents prefer attempt to employ financing from retained earnings and income. The highest preferences of external financing is non-collateral loan as long-term loan (mean=1.914) and short-term (mean=1.853).

The highest performance mean is about having loyal customer (mean=3,569). This indicator reveals business achievement in maintaining trust for their customers. The lowest mean value is indicator which reflects business growth: ability of business to maintaining and/or increasing asset value (mean=3.25). Despite of their ability to maintain and increasing sales (mean=3.353), however they are still focusing income acquired for financing operating needs (mean=3.491), rather than to increasing business growth.

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Table 5 Statistics Descriptive

	Mean	Median	Min	Max	Standard Deviation
FINANCIAL LITERACY					
(1=very low ability; 2=low ability; 3=high ability; 4=very high ability)					
Able to determine risk of saving in bank (FL01)	3.336	3	1	4	0.776
Able to determine investment risk in non-bank institutions (FL02)	3.095	3	1	4	0.965
Able to determine risk and benefit of investment products (FL03)	3.31	3	1	4	0.781
Analyze financial impact of government policy changes to my business (FL04)	3.233	3	1	4	0.699
DIGITAL LITERACY					
(1=very low ability; 2=low ability; 3=high ability; 4=very high ability)					
Utilizing online media in business (DL01)	3.379	4	1	4	0.762
Updating sales information using digital media (DL02)	3.328	4	1	4	0.807
Gain growth opportunity from digital media (DL03)	3.534	4	1	4	0.724
Able to determine information accuracy in online media (DL04)	3.276	3	1	4	0.738
FINANCING PREFERENCES					
1=very low preferences; 2=low preferences; 3=high preferences; 4=very high preferences					
internal sources fund than financing from debt or external sources (FInt)	3.422	4	1	4	0.902
short-term loan (due to < 1 year) non-collateral from banks (FExt01)	1.853	2	1	4	1.002
long-term (due to >1 year) non-collateral	1.914	2	1	4	1.071

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loan from banks preferences (FExt02)					
short-term online loan from non-bank institusion (FExt03)	*1.56*	*1*	*1*	*4*	*0.854*
long-term online loan from non-bank institution (FExt04)	*1.595*	*1*	*1*	*4*	*0.881*
long-term debt from non-bank institution, except cooperative institution (FExt05)	*1.776*	*1*	*1*	*4*	*0.948*
Short-term loan from cooperative institution (Ind: Koperasi) (FExt06)	*1.81*	*1*	*1*	*4*	*1.016*
PERFORMANCE					
1=very disagree; 2=disagree; 3=agree; 4=strongly agree					
my company is able to gain profit (Prf01)	*3.44*	*4*	*1*	*4*	*0.746*
my company is able to maintain or increasing sales (Prf02)	*3.353*	*3*	*1*	*4*	*0.698*
my company is able to maintain and/or increasing asset value (Prf03)	*3.25*	*3*	*1*	*4*	*0.693*
my company has loyal customers (Prf04)	*3.569*	*4*	*2*	*4*	*0.576*
my company is able to maintain and/or increasing customers (Prf05)	*3.466*	*4*	*1*	*4*	*0.649*
company's income can be used to fund operating needs (Prf06)	*3.491*	*4*	*1*	*4*	*0.737*
my company can operate efficiently (Prf07)	*3.353*	*3*	*1*	*4*	*0.71*
company's income can be used to cover business capital (Prf08)	*3.371*	*4*	*1*	*4*	*0.794*

Goodness-of-fit of model is determined by SMSR value (Ringle et al., 2015). SMSR value of this model is 0.089 (less than 0.1) which is considered as a good fit.

Refer to Table 6, our hypotheses test results are :

1. financial literacy has no significant influence to external financing (original sample=-0.025; p-value=0.865)
2. financial literacy is positively significant to internal financing (original sample = 0.284; p-value=0.006),
3. financial literacy is positively significant to performance. (original sample=0.39; sig.=0.00).
4. digital literacy has no significant influence to external financing (original sample=-0.025; p-value=0.861)
5. digital literacy has no significant influence to internal financing (original sample=0.058; p-value=0.59)
6. digital literacy is positively significant to performance (original sample=0.193; p-value=0.02)

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7. internal financing has no significant to performance (original sample=0.129; p-value=0.104)
8. external financing is negatively significant to performance (original sample=-0.201; p-value=0.03)

Table 7 provides output of indirect effect test. Regarding to Table 10, all p-values are greater than 0.05. So that, financing preferences are not supported as an intervening variable in this model.

Table 6- Path Coefficient

	Original Sample (O)	*Sample Mean (M)*	*Standard Deviation (STDEV)*	*T Statistics (|O/STDEV|)*	*P Values*
Financial Literacy -> ExternalFin	*-0.025*	*-0.02*	*0.15*	*0.17*	*0.865*
Financial Literacy -> InternalFin	*0.284*	*0.288*	*0.104*	*2.737*	*0.006**
Financial Literacy -> Performance	*0.39*	*0.395*	*0.087*	*4.497*	*0**
Digital Literacy -> ExternalFin	*-0.025*	*-0.001*	*0.145*	*0.176*	*0.861*
Digital Literacy -> InternalFin	*0.058*	*0.054*	*0.108*	*0.539*	*0.59*
Digital Literacy -> Performance	*0.193*	*0.192*	*0.083*	*2.326*	*0.02**
InternalFin -> Performance	*0.129*	*0.126*	*0.079*	*1.628*	*0.104*
ExternalFin -> Performance	*-0.201*	*-0.182*	*0.092*	*2.176*	*0.03**

*significant at α 5%

Table 7 Specific Indirect Effect

	Original Sample (O)	*Sample Mean (M)*	*Standard Deviation (STDEV)*	*T Statistics (|O/STDEV|)*	*P Values*
Financial Literacy -> ExternalFin -> Performance	*0.005*	*0.009*	*0.027*	*0.191*	*0.849*
Digital Literacy -> ExternalFin -> Performance	*0.005*	*0.003*	*0.027*	*0.19*	*0.849*
Financial Literacy -> InternalFin -> Performance	*0.037*	*0.035*	*0.026*	*1.421*	*0.156*
Digital Literacy -> InternalFin -> Performance	*0.008*	*0.008*	*0.018*	*0.419*	*0.675*

D. Discussion

MSMEs performance is associated with the capability of the owner or owner's representative in managing the company. Owner decision has dominated in managing the source of daily operational fund and investments. When the owner or owner's representative has good knowledge of the sources of funds and financial risks, he is able to determine how much, when and what kind of financing source which are appropriate for his company.

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Knowledge of financial risk and performance measurement also becomes the basis for analyzing the company's financial capabilities. Therefore, owners who have good financial literacy tend to be able to improve their company's performance. In this research, financial literacy has positively significant influence toward performance. This finding supports previous research which conducted by Agyapong & Attram, (2019), Amoah & Mungai (2020); Kulathunga et al., (2020) and Sohilaw et al (2020). Entrepreneurs who have financial literacy are able to make decisions about the right company financial management, so that better performance is achieved. Our hypothesis test has proved that digital literacy has a significant positive influence toward performance. This result supports Kulathunga et al., (2020) and Prihatiningtias & Wardhani, 2021) . According to this finding, digital literacy is one of the main factors for improving performance. Technological developments provide opportunities to obtain information. Digital literacy describes the ability to obtain accurate information and utilize technology tools for company management purposes. Information on the internet inspires entrepreneurs to create innovative products, monitor market developments and competitor conditions, as well as investment opportunities or sources of funds. When an entrepreneur has the ability to obtain information and utilize technology appropriately, he has the potential to gain a competitive advantage. Digital literacy also includes a person's ability to keep personal or confidential data. The ability to personal or confidential data reduced the risk of data misuse. A low risk of data misuse indicates good internal control, and it ensures that company operation is doing well. As stated in knowledge-based view theory, that companies can utilize knowledge and competencies as unique resources to create competitive advantage to achieve higher performance.

Financial preferences describe financing source decisions. Financing sources can be obtained from internal as retained earnings, and from external parties such as loan and investment from others. According to the pecking order theory, each company has preferences to determine its capital structure. Our hypotheses result shows that external financing has negative significant effect toward performance. This finding supports Bannier & Heyden (2019); Tamara et al. (2019) which concluded that debt has a significant negative effect on performance. The respondents perceived that if they increase the loan or investment, it will decrease business performance. Baker et al., (2020) stated that MSMEs tend to prioritize internal funding over external funding. However, internal financing were not proven significantly affect performance. Most of our respondents are categorized as micro business with capital less than Rp 1.000.000. They seem to have problems with loan guarantees. Our data (Table 7) shows higher preferences to non-collateral loans than short term and long-term external financing. Actually they are slightly interested for employing loans as capital structures, but they considered asset-collateral as constrained. Our hypotheses supported is financial literacy has positively influenced toward internal financing preferences. This implies that owner or owner-representatives understands financial ability of their business. They decide to utilize internal financing rather than external financing which has higher risk. In crisis period, MSMEs focuses more in financing operational and survive.

IV. CONCLUSION

A. Conclusion

There are three conclusions. *First*, financial literacy and digital literacy both positively significant affect performance. This result indicates that literacy about bookkeeping, financial risk and benefit, access and requirement to financing sources, capability to find accurate information, and ability to utilize digital media has important role to enhance MSEs performance. *Second*, financial literacy positively significant affect internal financing preference, but not significant to external financing. This finding implies financial literacy also has role to financing decision. MSMEs which have higher financial literacy tend to avoid risk and then utilize internal financing. *Third*, external financing is negatively significant to MSEs performance, and internal financing is not significant to performances. Our respondents perceived that external financing need collateral asset, and increase expenses and risk which are they cannot afford to pay. Data of this research gathered was in pandemic situation, so MSMEs focus more on survive than business growth.

B. Limitation and Implication

Adjusted R for financing preference model as the dependent variable is quite small (less than 0.1). This indicates that next examination will need more samples. Meanwhile, for the performance as dependent variable, the adjusted R-Square result is 0.342. It indicates that the model is able to explain 34.2% variance. Therefore, the performance model of MSMEs in future studies may involve other variables.

This research has some implications. *First*, for the business community and academics, in order to be able to achieve good performance of MSMEs, it is necessary to always improve financial literacy and digital literacy. Knowledge of risks and access to financing sources is also important so that MSMEs are not only able to

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survive, but can also grow by increasing assets. Furthermore, it is important for policy makers to continuously evaluate lending policies that are suitable for MSEs, such as collateral and administration requirements, maturity date, and interest rates, to encourage their performance.

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