The Impact of Financial Inclusion, Financial Literacy, and CSR on MSME Financial Performance: A Study in Humbang Hasundutan Regency

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ABSTRAK

This study investigates the key factors influencing the financial performance of Micro, Small, and Medium Enterprises (MSMEs) in the Humbang Hasundutan Regency. The research addresses persistent challenges faced by MSMEs, including limited understanding of accounting practices, constrained business capital, and barriers to accessing formal financial services. This study aims to analyze the specific influence of financial inclusion, financial literacy, and Corporate Social Responsibility (CSR) on MSME financial performance. Using a quantitative approach, data was collected from 70 MSME owners selected via purposive sampling. The data was subsequently analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS software. The findings reveal that financial literacy and CSR both have a positive and significant effect on the financial performance of MSMEs. However, financial inclusion was found to have no significant effect. This suggests that while knowledge and social responsibility are key drivers of performance, mere access to financial services is insufficient on its own to improve the financial standing of MSMEs in this region.

Keywords Financial Inclusion, Financial Literacy, CSR, MSME Financial Performance, PLS-SEM.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are widely recognized as a critical pillar of economic development, particularly in developing nations like Indonesia. They contribute significantly to the national Gross Domestic Product (GDP) and are a primary source of employment (Yolanda, 2024). However, despite their macroeconomic importance, many MSMEs struggle to achieve sustainable financial performance. This is especially true in regional areas such as Humbang Hasundutan Regency, where MSMEs, though numerous, face significant operational hurdles.

Key challenges include a limited understanding of basic accounting and financial management, constraints on business capital, and difficulties in accessing formal financial services (Sihombing et al., 2024). These issues often prevent MSMEs from making effective financial decisions, managing cash flow, and scaling their operations.

To address these performance gaps, researchers have identified several potential drivers. This study focuses on three prominent factors: financial inclusion (the access to and use of formal financial services), financial literacy (the knowledge and skills to make sound financial decisions), and Corporate Social Responsibility (CSR) (a firm's commitment to ethical and sustainable practices).

While these factors are theoretically linked to performance, empirical evidence remains inconsistent. For instance, some studies find a positive link between financial inclusion and performance (Dewi, 2023), while others find no significant effect (Marsenta et al., 2024). Similarly, the impact of financial literacy (Kusuma et al., 2022; Mayasari, 2022) and CSR (Singh et al., 2021; Hartanto et al., 2024) shows conflicting results in different contexts.

This study aims to examine how financial inclusion, financial literacy, and corporate social responsibility (CSR) influence the financial performance of Micro, Small, and Medium Enterprises (MSMEs) in Humbang Hasundutan Regency. Specifically, the research focuses on understanding whether access to formal financial services, the financial knowledge of business owners, and the implementation of CSR practices contribute to improvements in MSME financial outcomes.

2. Literature Review

2.1 Theoretical Framework: Signalling Theory

This study is grounded in Signalling Theory (Brigham & Houston, 2019), which explains that in environments characterized by information asymmetry, firms may send credible signals to external stakeholders to demonstrate their quality and reduce uncertainty. Within the MSME context, engaging in CSR activities, demonstrating strong financial literacy through sound financial management, and gaining access to formal financial services can function as positive signals that indicate responsible and competent management. Such signals are expected to enhance stakeholder trust and ultimately improve financial performance (Gumanti, 2018).

2.2 Financial Performance of MSMEs

Measuring MSME financial performance poses challenges, as many MSMEs do not maintain formal financial statements. Therefore, this study adopts performance indicators commonly used in previous research involving similar business contexts (Munizu, 2010; Hidayatullah, 2020). Instead of traditional financial ratios, financial performance is assessed through growth-oriented indicators perceived by the business owner, such as increases in sales, profits, capital, and market reach. These indicators offer a more realistic representation of financial outcomes for MSMEs in developing regions.

2.3 Hypothesis Development

Financial inclusion is generally seen as a mechanism that provides MSMEs with access to capital, savings, credit, and payment services that support business growth (Terzi, 2015). Although empirical studies present mixed results—some reporting a positive influence (Dewi, 2023) and others finding no significant effect (Marsenta et al., 2024)—the theoretical foundation suggests that greater financial access should enhance business performance. Accordingly, this study hypothesizes that financial inclusion positively and significantly affects the financial performance of MSMEs.

Financial literacy is considered a critical internal capability that enables MSME owners to manage finances more effectively, from budgeting and controlling cash flow to making informed investment decisions (Kusuma et al., 2022). As a signal, strong financial literacy reflects a well-managed and less risky business entity. While certain studies show inconsistent findings (Mayasari, 2022), the predominant literature supports a positive relationship between financial literacy and MSME financial performance. Hence, this study

proposes that financial literacy has a positive and significant effect on MSME financial performance.

CSR reflects the commitment of enterprises to ethical behavior toward employees, communities, and the environment (Anjanie & Hasyir, 2023). For MSMEs, adopting CSR practices can help build a positive reputation, strengthen customer loyalty, and foster community support. From the perspective of Signalling Theory, CSR acts as a signal of organizational stability and responsible conduct, thereby creating conditions that support improved financial outcomes (Simaremare & Gaol, 2018). In line with this reasoning, the study hypothesizes that CSR positively and significantly influences the financial performance of MSMEs.

METHODS

1. Research Design and Sample

This study employed a quantitative, explanatory research design. Data was collected from MSME owners in the Doloksanggul district of Humbang Hasundutan Regency. A purposive sampling technique was used to select 70 MSMEs that met the following criteria: (1) operating for at least one year, (2) domiciled in the research area, and (3) having at least one employee. All 70 distributed questionnaires were returned and deemed valid for analysis.

2. Measurement

All variables were measured using primary data from the questionnaires, with items rated on a 5-point Likert scale (1=Strongly Disagree to 5=Strongly Agree).

a) **Financial Performance (Y)**: Measured using 10 items adapted from Hidayatullah (2020), assessing perceived growth in sales, profit, capital, number of workers, and market expansion.

b) **Financial Inclusion (X1)**: Measured using 8 items assessing the availability, accessibility, and quality of use of formal financial services (Hidayatullah, 2020).

c) **Financial Literacy (X2)**: Measured using 8 items assessing knowledge of financial concepts, credit management, savings, investment, and risk management (Dewi, 2023).

d) **Corporate Social Responsibility (X3)**: Measured using 4 items related to work safety, environmental monitoring, regulatory compliance, and transparency in hiring (Dewi, 2023).

3. Analytical Technique

Data was analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM) with SmartPLS 4.1.1.4 software. The analysis followed a two-step process:

1. **Outer Model (Measurement Model) Evaluation:** Assessed for reliability (Cronbach's Alpha, Composite Reliability) and validity (Convergent Validity via AVE, and Discriminant Validity via HTMT and Fornell-Larcker criterion).

2. **Inner Model (Structural Model) Evaluation:** Assessed the model's predictive power (R^2) and tested the research hypotheses using p-values and t-statistics derived from a bootstrapping procedure.

RESULTS AND DISCUSSION

Numerical Results

Before hypothesis testing, the model's reliability and validity were thoroughly validated.

   a) Reliability: The model demonstrated high internal consistency. All constructs surpassed the 0.70 threshold for both Cronbach's Alpha (ranging from 0.888 to 0.982) and Composite Reliability (ranging from 0.919 to 0.985) .

   b) Convergent Validity: This was confirmed as all final indicator Outer Loadings exceeded the recommended 0.70 benchmark after invalid items were eliminated. Furthermore, the

   c) Average Variance Extracted (AVE) for every variable was well above the 0.50 minimum confirming that the indicators adequately represented their latent constructs.

   d) Discriminant Validity: Validity was established using three criteria. First, the Heterotrait-Monotrait-Ratio (HTMT) values were all below the 0.90 threshold, indicating the constructs are distinct. Second, the Fornell-Larcker criterion was met, as the square root of each construct's AVE was greater than its correlation with any other construct. Third, Cross-Loading analysis showed that all indicators loaded most strongly onto their intended constructs.

   e) Collinearity: The model was also confirmed to be free of multicollinearity issues, as all Variance Inflation Factor (VIF) values were significantly below the maximum threshold of 5.0 (ranging from 1.033 to 1.042).

1. **Graphical Results**

The structural model was assessed to determine the predictive power and test the research hypotheses.

Predictive Power (R^2): The model's predictive capability was found to be weak. The R-Square adjusted value for the dependent variable, MSME Financial Performance, was 0.111. This signifies that the three independent variables (Financial Inclusion, Financial Literacy, and CSR) collectively explain only 11.1% of the variance in financial performance. The remaining 88.9% is attributed to other factors outside the scope of this study.

Effect Size (f²): The F-Square values, which indicate the relative impact of each predictor, were categorized as "small" for all three paths: Financial Inclusion (0.027), Financial Literacy (0.070), and CSR (0.077) .

Hypothesis Testing: The core results from the hypothesis tests are detailed in Table 1 and summarized below:

Tabel 1 Output Total Effect

Path Coefficient	Original Sampel (O)	Sampel mean (M)	Standar Deviantion (STDEV)	T statistics (IO/STDEVI)	P Value	Decision
Financial Inclusion → Financial Performance	-0.153	-0.074	0.164	0.931	0.352	Rejected
Financial Literacy → Financial Performance	0.249	0.239	0.115	2.160	0.031	Supported
Corporate Social Responsibility → Financial Performance	0.260	0.289	0.100	2.609	0.009	Supported

Source: SmartPLS v.4.1.1.4 Output, processed by the researcher (2025)

H1: Financial Inclusion -> Financial Performance: This hypothesis was rejected. The path coefficient was negative (-0.153) and not statistically significant (p-value = 0.352, t-statistic = 0.931). This finding suggests that, for the sampled MSMEs, having access to formal financial services does not significantly impact financial performance. This may be because owners still rely on personal capital or do not fully utilize available financial products like credit.

H2: Financial Literacy -> Financial Performance: This hypothesis was accepted. The path showed a positive (0.249) and statistically significant relationship (p-value = 0.031, t-statistic = 2.160). This demonstrates that a higher level of financial knowledge and management skill among MSME owners directly contributes to improved financial performance.

H3: Corporate Social Responsibility -> Financial Performance: This hypothesis was also accepted. The path coefficient was positive (0.260) and highly significant (p-value = 0.009, t-statistic = 2.609). This result confirms that MSME engagement in socially responsible

practices has a significant, positive influence on their financial performance , likely through enhanced reputation and customer loyalty.

5.3 Proposed Improvements

The final PLS structural model is visually represented in the path diagram (see Appendix C.2.2). This graphic illustrates the relationships and path coefficients between the independent variables (Financial Inclusion, Financial Literacy, CSR) and the dependent variable (MSME Financial Performance). The diagram visually confirms the numerical findings:

a) A non-significant, negative path from Financial Inclusion (X1) to Performance (Y).

b) A significant, positive path from Financial Literacy (X2) to Performance (Y).

c) A significant, positive path from CSR (X3) to Performance (Y)

5.4 Validation

Based on the study's conclusions and limitations, the following improvements are suggested for future research:

Methodological Expansion: Given the mixed results, future studies should consider alternative analytical models, such as exploring the potential mediating or moderating role of other variables.

Refine Indicators: This study was limited by its direct cause-and-effect approach. Future research should utilize more nuanced indicators, such as the actual utilization of financial services (not just access), the depth of literacy, and specific CSR practices relevant to micro-enterprises.

Broaden Scope: Researchers are encouraged to expand the study's scope to include different geographical areas or economic sectors (e.g., agriculture, creative industries). This would allow for a comparative analysis to see if these relationships hold true across different business characteristics.

6. Conclusion

This study concludes that within the Humbang Hasundutan Regency, an MSME owner's financial literacy and the firm's engagement in CSR activities are positive and significant predictors of financial performance. Conversely, financial inclusion, when

measured as simple access, does not have a significant impact.

Practical Implications:

1. For policymakers and government agencies, efforts to support MSMEs should move beyond simply increasing the number of banked individuals. The focus must shift to robust and practical financial literacy training programs that empower owners to use financial services effectively.

2. For MSME owners, this study highlights that investing in one's own financial knowledge and implementing low-cost, ethical CSR practices can be direct strategies to enhance business performance and build a competitive advantage.

LIMITATION AND FUTURE RESEARCH

The findings of this study should be interpreted with caution. The low R-squared value (11.1%) indicates that the model is missing other critical variables. Furthermore, the sample is limited to one regency and a specific set of MSMEs. Future research should incorporate other variables, such as innovation, digital adoption, and market access, and replicate this study in different geographical and sectoral contexts to validate the findings.

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