THE INFLUENCE OF FINANCIAL MANAGEMENT USING THE FINANCIAL FREEDOM APPROACH, FINANCIAL TECHNOLOGY AND SOCIAL CAPITAL ON THE INCOME OF MSMES IN THE TOURISM SECTOR

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Abstract

This research is quantitative in nature with the aim of testing theories and hypotheses in the study. The research employed convenient and purposive sampling techniques for data collection. Data analysis involved several stages, including descriptive analysis, testing data variance and reliability, multiple linear regression analysis, classic assumption tests, regression model goodness-of-fit tests, and hypothesis testing. The research results indicate that financial management with a financial freedom approach, financial technology, and social capital, individually, have a positive influence on UMKM income.

Keywords: Financial, Freedom, Technology, Social, Income.

INTRODUCTION

The presence of MSMEs has the ability to create significant job opportunities in economic distribution for the less privileged and equalize employment opportunities in both rural and urban areas (Muttaqin et al., 2020; Mistriani et al., 2021). Data has shown that approximately 60% of the Gross Domestic Product (GDP) comes from the contribution of MSMEs, and about 97% of the workforce is found within the MSME sector (Yarlina & Hunda, 2021). The number of Micro, Small, and Medium Enterprises (MSMEs) in the Madura region is quite significant, and the presence of these MSMEs has a positive impact on the economy of Madura. Here is the number of MSMEs and the workforce employed in each regency: Bangkalan Regency has 166,768 MSMEs employing 210,003 workers, Sampang Regency has 195,215 MSMEs employing 264,569 workers, Pamekasan Regency has 195,554 MSMEs employing 257,481 workers, and Sumenep Regency has 269,005 MSMEs employing 486,196 workers.

However, MSMEs in Madura also face various limitations that pose obstacles to their development and sustainability (Haliza & Sifa, 2021). The Chairman of the Permanent Committee on SMEs and Cooperatives of the Indonesian Chamber of Commerce and Industry (Kadin) also revealed the fact that, in reality, approximately 40% of SMEs experience failure, and one of the contributing factors is a lack of understanding of business management (Ariesta, 2021).

Since the spread of the coronavirus (COVID-19) pandemic in both developed and developing countries, there have been changes in individual or human behavior in their social lives (Yarlina & Hunda, 2021; Zulfikar, 2021). These changes are significant in the social and economic aspects (Tubagus, 2018; Rosita, 2020; Leonandri & Fitriana, 2021). Failure to address this could result in losses of Rp 517.5 trillion and potentially lead to a contraction of -2.07% in Indonesia's economic growth (Laga & Jamu, 2018; Hadiwardoyo, 2020; Yarlina & Hunda, 2021).

The World Bank indicates that this pandemic has resulted in the majority of SMEs facing difficulties in repaying loans, paying operational bills, and even in meeting payroll expenses. Some SMEs have been forced to resort to layoffs as a measure to cope with the financial pressures they are facing. This situation reflects the serious impact of the COVID-19 pandemic on the SME sector in various countries (Bahtiar, 2021). In facing such a situation, SMEs need to design strategies to survive and grow their businesses. One of the key aspects that significantly impacts SME operators is a decrease in sales, which can lead to a financial crisis for SMEs.

The financial health of SMEs can be assessed through an improvement in financial performance. According to Saskia et al. (2020) and Afaf et al. (2021), SMEs can be considered financially healthy if their management is capable of handling finances through proper planning and analysis aligned with the objectives of the SMEs. Research related to the financial management of SMEs indicates that the level of financial literacy can influence how individuals understand their financial situation and play a role in making strategic financial decisions and managing their businesses. Good financial literacy can assist business owners in making better decisions in managing their business finances, which, in turn, can contribute to the success and sustainability of MSMEs (Anggraeni, 2015; Rumbianingrum & Wijayangka, 2018; Saputra et al., 2018; Humaira & Sagara, 2018; Widya et al., 2019; Rosita, 2020; Pusporini, 2020; Saskia et al., 2020). Understanding financial literacy by business operators provides the ability to manage finances effectively. Careless or inadequate financial management can prevent business operators from taking preventive actions and safeguards against potential deviations in their business activities (Hongyun, 2019). Related studies conducted by Rumain & Mardani in 2020 found a positive and significant influence of financial management on MSME performance. In contrast, observations by Ardiyani in 2021 concluded that financial management does not have a significant impact on the performance of MSMEs.

Financial Freedom is a condition that allows individuals to attain freedom in financial matters, enabling them to make choices in managing their finances according to their hopes and life goals. According to Afaf et al. (2021), financial freedom is a situation where individuals are free from fear and anxiety about financial shortages and have the freedom of financial strength without having to work harder. In other words, financial freedom is a condition that signifies someone is free from all types of debt, has passive income that can meet their living expenses, is financially protected from all risks, and no longer worries about spending money for leisure activities.

The sustainability of SMEs in the era of the Fourth Industrial Revolution is also supported through the adoption of information technology. In the financial field, financial technology plays a crucial role in enhancing financial services. Innovations that can be leveraged from the development of financial technology in the field of financial services include payment methods, credit or loan media, savings tools, and more (Safitri, 2020). The importance of financial technology, as shown in the research by Hertadiani & Lestari (2021), concludes that financial technology has a positive and significant impact on the performance of SMEs.

Social capital is the result of cooperation, building trust, and creating social networks. Burt (2000) defines social capital as friends, colleagues, and, more generally, contracts through anyone who opens opportunities for the utilization of economic and human capital. According to Eklinder-Frick et al. (2012), social capital is seen as a connector in creating norms and trust within network structures. The importance of social capital, as shown in the research by Yarlina & Hunda (2021), is that social capital has a significant positive impact on the performance of SMEs. However, in their study, Mahar & Ghumro (2020) stated that one dimension of social capital, namely networks, does not significantly influence SME performance. This is explained by the fact that not all networks within social capital provide services to entrepreneurs to access relevant resources.

The lack of knowledge among SMEs about financial freedom can lead to suboptimal financial management, resulting in suboptimal business profits. Based on the previous discussion, this research focuses on financial management with a financial freedom approach, financial technology, and social capital towards increasing the income of SMEs in the tourism sector in Madura.

THEORITICAL BACKGROUND AND RESEARCH HYPOTHESES

Financial management with a financial freedom approach

Financial management refers to all activities related to the collection, allocation, and management of a company's financial resources to achieve predefined financial goals (Putri, 2021). According to Putri (2021), financial management is defined as the process of planning, budgeting, examination, management, control, and the search and storage of funds owned by an organization or company.

Financial freedom refers to the condition in which an individual or household has full control over their financial situation (Afaf et al., 2021). This includes the ability to meet basic needs, cover living expenses, pay off debts, invest funds wisely, and have sufficient resources to achieve long-term financial goals without relying too heavily on monthly income or debt. Financial freedom can be interpreted as the steps taken by an individual to attain a state of financial independence, where they can meet basic needs and pursue desires without undue concern about financial matters (Rosita, 2020).

Hypothesis 1: Management management with a financial freedom approach has a significant effect on MSME income

Financial Technology

Financial technology, often abbreviated as FinTech, refers to the innovative use of technology to provide and enhance financial services. This can encompass a wide range of services and products, including online banking, mobile payment apps, peer-to-peer lending platforms, digital wallets, blockchain and cryptocurrencies, robo-advisors for investment management, and more. FinTech aims to make financial services more efficient, accessible, and convenient for individuals, businesses, and institutions.

With financial technology, the buying and payment process becomes more efficient, cost-effective, and remains effective (Safitri, 2020). Infithor & Kornitasari (2019) stated that information technology helps in accomplishing tasks oriented toward business owners' objectives. In their research, Haliza & Sifa (2021) declared that financial technology has a significant positive impact on the performance of SMEs, reflecting the crucial role of fintech in supporting the growth and efficiency of SME businesses.

Hypothesis 2: Financial technology has a significant effect on MSME income

Social Capital

Social capital is the sum of actual and potential resources made available through an individual's or social unit's network of connections (Yani et al., 2020). These resources are known to include financial capital, skilled labor, and knowledge that can be acquired through investment in social interactions (Sclepphorst et al., 2020).

Social capital is said to be highly critical for an entrepreneur, enabling mutual support to ensure efficient business performance and sustainable competitive advantage (Akintimehin et al., 2019). This happens because social capital plays a significant role in entrepreneurial activities, through socio-economic processes based on social contexts and conditions from two perspectives. First, entrepreneurship is a product of its social environment, and second, entrepreneurship is a social activity, and the presence or absence of social relationships and connections influences the nature of the business (Nasip et al., 2017).

Social capital is known to be highly valuable in facilitating the creation of value, knowledge, competitive advantage, better business performance, and faster social development (Yani et al., 2020). According to Hongyun et al. (2019), social capital is crucial for the sustainability of MSMEs. This statement is consistent with their research findings, which demonstrate that social capital has a significant positive impact on company performance. Furthermore, in their research, Yani et al. (2020) state that social capital has a significant positive influence on business performance.

Hypothesis 3: Social Capital has a significant effect on MSME income

RESEARCH METHOD

The population of this study consists of MSME operators in the Madura region, and the research sample comprises MSME operators in the tourism sector in Madura. The research sampling technique was carried out through convenient sampling and purposive sampling.

Research data was collected by distributing questionnaires to MSME operatos. Respondents' answers were classified in the form of responses using an Interval scale with the Likert scale method. From these answers, descriptive statistics such as the mean (average), standard deviation, variance, maximum, and minimum values were used to provide an overview of the research variables and characteristics of the respondents.

This research utilizes several stages of analysis to interpret the research data. These stages of analysis include descriptive analysis, data quality testing, regression analysis, classic assumption testing, Goodness of Fit test for the regression model, and hypothesis testing.

RESULT AND DISCUSSION

Description of Respondent Profile (MSMEs)

The research respondents are MSME operators in the tourism sector in the Madura region. The description of the research respondents, based on gender, length of business, type of business, and business turnover. There are a total of 54 research respondents who are SME operators in the tourism sector. Out of the total 54 SME operators, 54% are managed and owned by males, while 46% are managed and owned by females. These numbers reflect the relative gender distribution among owners and operators of SMEs. Based on this data, researchers can conclude that in the studied SME group, the majority of business operators are males, while females also play a significant role in owning and managing SMEs.

The types of SMEs in the tourism sector in this research consist of businesses related to batik, food, crafts, and retail. Of the SMEs in the tourism sector studied, 72% of them are engaged in batik-related businesses. This indicates that the majority of SME operators are involved in the production or sale of batik products. About 13% of the SMEs in the tourism sector focus on the food industry. This category may include restaurants, cafes, food stalls, or other businesses related to providing food and beverages to tourists or local customers. Only 4% of the SMEs in the tourism sector are engaged in the craft industry. This might include the production and sale of handicrafts, decorations, or other art-related products that could attract tourists. Around 11% of the SMEs in the tourism sector are retail shops. This category may encompass souvenir shops, clothing stores, accessory stores, and various other types of shops that provide items of interest to tourists.

Regarding the length of operation of SMEs, 13% of them have been in business for 1 to 5 years. This indicates that a small portion of SMEs has just started or is still in the early stages of development. About 24% of SMEs have been in operation for 6 to 10 years. This suggests that the majority of SMEs in this group have passed the initial stage and may have more mature experience in managing their businesses. Survey data also shows that 35% of SMEs have been operating for 11 to 15 years, the highest percentage, indicating that most SMEs in this group have been part of the market or industry for more than a decade. Lastly, 28% of SMEs have been in operation for more than 15 years. This group indicates that almost a third of SMEs have been established and operational for a very long period, and they may have high stability and experience in their industry.

The turnover of Micro, Small, and Medium Enterprises (SMEs) in the tourism sector is divided into several groups based on the turnover amount they generate. These groups include turnover below 5 million, 5-10 million, 10-15 million, 15-20 million, and turnover above 20 million. 44% of SMEs in the tourism sector have a turnover of less than 5 million. This indicates that the majority of SMEs in this research generate relatively small turnovers. 26% of SMEs in the tourism sector have a turnover between 5 to 10 million. This shows that a small portion of SMEs has slightly higher turnover compared to the first group. 11% of SMEs in the tourism sector have a turnover in the range of 10 to 15 million. This is a smaller group but with higher turnover compared to the previous two groups. 7% of SMEs in the tourism sector generate a turnover between 15 to 20 million. This group is even smaller but has a larger turnover compared to the previous groups. 11% of SMEs in the tourism sector have a turnover of more than 20 million. This is the group with the highest turnover among all the mentioned groups.

Test of Data Quality

The data quality test in this research involves testing the validity and reliability of the questionnaire. The validity test is performed by comparing the two-tailed significance value with a probability of 0.005 (5%) and the Pearson correlation value. If the significance value is less than 5% and the Pearson correlation value is positive, then the questionnaire item/statement is considered valid. The reliability test is conducted to measure a questionnaire that serves as an indicator of a variable or construct. The statistical technique used for this test is the Cronbach's Alpha coefficient. In general, a research instrument is considered reliable if it has a Cronbach's Alpha coefficient > 0.6.

The results of the data validity test show that the significance value is less than 5%, and the Pearson correlation values for each variable are positive. This indicates that all research questionnaires are valid. For the data reliability test, the Cronbach's Alpha values for each variable are greater than 0.6. This suggests that all research questionnaires for each variable are reliable.

Analysis of Regression Model

Each variable, namely financial freedom, financial technology, and social capital, has regression coefficients of 0.547, 0.266, and 0.440, respectively. The regression model equation for this study is as follows:

Income = 0,547 Finc. Freedom + 0,266 Finc.Technology + 0,440 Sosial Capital

Each independent variable has a positive impact on the SME income variable. Under the assumption of ceteris paribus conditions, an increase of one unit in each independent variable will result in an increase in the SME income variable. The regression equation indicates a direct relationship between the independent variables and the dependent variable, meaning that a higher increase in each independent variable (financial freedom, financial technology, social capital) will lead to an increase in SME income, and conversely, a decrease in each independent variable (financial freedom, financial technology, social capital) will lead to a decrease in SME income.

Considering the regression values of each independent variable (financial freedom, financial technology, social capital), the variable financial freedom has the highest regression coefficient, which is 0.547. This suggests that the financial freedom variable has an influence that is 54.7% higher than the other variables. In conclusion, financial management based on financial freedom can affect SME income by 54.7%.

Table 1: Regression Coefficient

Model		Unstandardized Coefficients		Standardized Coefficients
		B	**Std. Error**	**Beta**
1	(Constant)	-1,181	,416	
	Financial Freedom	,547	,105	,452
	Teknologi Keuangan	,266	,080	,264
	Modal Sosial	,440	,097	,359

Classic Assumption Testing

The regression equation must meet the classic assumption criteria for the regression model to be the Best, Linear, Unbiased Estimator (BLUE). The classic assumption tests in this research include tests for normality, multicollinearity, and heteroskedasticity. Based on these three tests, it can be concluded that the regression model meets the classic assumption criteria, and it is a best, linear, unbiased, and estimator. Normality of the data can be assessed by checking if the data follows a normal distribution, which is done by examining the values of differences and their significance. If the significance value is greater than 5%, the model is considered normal. The normality test was conducted using the Kolmogorov-Smirnov test. The Kolmogorov-Smirnov test resulted in a value of 0.435 with a significance value of 0.999, indicating that the data follows a normal distribution.

Table 2: One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		54
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,16699846
Most Extreme Differences	Absolute	,059
	Positive	,053
	Negative	-,059
Kolmogorov-Smirnov Z		,435
Asymp. Sig. (2-tailed)		,992
a. Test distribution is Normal.		
b. Calculated from data.		

Multicollinearity is tested by examining the values of tolerance and the variance inflation factor (VIF) between independent variables (Ghozali, 2018:107). Based on the data processing, if tolerance values are greater than 0.10 or VIF values are less than 10, it suggests the absence of multicollinearity, meaning there is no significant correlation between the independent variables.

Table 3: Multicollinearity

Model		Tolerance	VIF
1	(Constant)		
	Financial Freedom	,588	1,701
	Teknologi Keuangan	,689	1,450
	Modal Sosial	,701	1,427

Heteroskedasticity detection is performed using the Glejser test. Based on the Glejser test results, each independent variable has a significance probability value above the 5% confidence level, indicating that the regression model does not contain heteroskedasticity.

Table 4: Heteroskedasticity with Glejser Test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,062	,231		,269	,789
	Financial Freedom	,048	,058	,147	,819	,417
	Teknologi Keuangan	-,068	,045	-,253	-1,528	,133
	Modal Sosial	,037	,054	,113	,687	,495
a. Dependent Variable: Abs_Res1						

Goodness of Fit Test for The Regression Model

The very low standard error value, which is 0.172 or 17.2%, indicates that the regression model is very accurate in predicting the income variable. The R-squared value of 0.78 or 78% suggests that the independent variables (financial freedom, financial technology, social capital) can explain 78% of the variance in the income variable in the regression model, while the remaining 22% is influenced by variables outside the model. In conclusion, the regression model in this research is very effective.

Table 5: Good Fitness of Regression Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,883[a]	,780	,766	,1719354

Hypothesis Testing

The t-test or partial test aims to show how much influence an individual independent variable has on the dependent variable. This test is conducted by comparing the significance value of the t-test with a confidence level set at 5%. The hypothesis is accepted if the significance value is below 0.05 (5%). In other words, if the p-value is less than 0.05, it indicates that the individual independent variable has a significant influence on the dependent variable.

Table 5: Hypothesis Test (Partial Test)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1,181	,416		-2,839	,007
	Financial Freedom	,547	,105	,452	5,219	,000
	Teknologi Keuangan	,266	,080	,264	3,302	,002
	Modal Sosial	,440	,097	,359	4,528	,000
	(Constant)	-1,181	,416		-2,839	,007

The Influence of Freedom Financial-Based Financial Management on MSME Income

People with a high level of financial freedom are more likely to take risks in their businesses. They may venture into high-risk business opportunities with the confidence that they have sufficient financial safety nets to mitigate potential losses. This can assist micro, small, and medium-sized enterprises (MSMEs) in pursuing strategies that have the potential to generate larger incomes. Entrepreneurs with financial freedom may be better equipped to invest funds in the development of their businesses. This may include the development of new products, expansion into broader markets, or improvements in infrastructure and marketing. These investments can enhance the income potential of MSMEs. Financial freedom provides flexibility in managing business finances. An entrepreneur who feels financially secure may not be overly stressed by fluctuations in their business income. They can plan for the long term, manage assets wisely, and make strategic decisions that support income growth.

Financial freedom can open doors for entrepreneurs to pursue business opportunities that may not be accessible to those without access to substantial capital. This can include investments in promising high-income sectors or new business opportunities that require significant initial investments. While financial freedom can have a positive impact on MSME income, it's important to remember that wise financial management is still crucial. Those with financial freedom must remain cautious in managing their business finances to ensure sustainability and income growth. So, while financial freedom can be a valuable asset, good financial management remains the key to MSME success.

This research found that financial management with a financial freedom approach can influence the income of Micro, Small, and Medium Enterprises (MSMEs). Based on regression results and hypothesis testing, financial freedom has a positive and significant influence on MSME income. This is evident from the positive regression coefficient value of 0.547 and its significance value of $0.000 < 0.005$. In terms of financial management, this research aligns with studies by Suindari & Juniariani (2020), Mohammed & Kohar (2020), and Adeliza & Khoirul Anam (2022).

The Influence of Financial Technology on MSME Income

With the help of technology, micro, small, and medium enterprises (MSMEs) can sell their products or services through online platforms and electronic markets. This enables them to reach a wider market and increase their income by reaching customers beyond their geographic region. Financial technology has made it easier for MSMEs to accept electronic payments, such as credit cards, digital wallets, and electronic money transfers. This allows them to serve customers more efficiently and reduce the risk of revenue loss due to slow or inefficient payments.

Financial technology also provides access to advanced data analysis tools. MSMEs can use this data to understand customer behavior, market trends, and make smarter decisions in managing their businesses. This can help improve marketing and sales strategies, ultimately boosting income. Financial technology can also offer solutions to protect MSMEs from financial risks, such as online insurance or financial products designed specifically to address certain risks that

MSMEs may face.

This research found that financial technology has a positive and significant influence on MSME income, meaning that increased use of financial technology will enhance MSME income. This is evident from the positive regression coefficient value of 0.266 and its significance value of 0.002 < 0.005. This research aligns with the findings of previous studies by Infithor & Kornitasari (2019), Hamidah & Ulupui (2020), and Adeliza & Khoirul Anam (2022).

The Influence of Social Capital on MSME Income.

Social capital plays a crucial role in supporting the growth and income of micro, small, and medium enterprises (MSMEs). Social capital creates access to resources that can assist MSMEs. This includes access to financial capital through loans from business associates or strong relationships within social networks. Additionally, MSMEs can leverage their connections to gain access to more affordable or higher-quality raw materials. Strong social networks can help MSMEs find customers and expand their customer base. Through recommendations and referrals from satisfied business associates or customers, MSMEs can attract more customers, thereby increasing their income.

Social capital can also provide access to business advisors, mentors, or experts in various fields who can assist MSMEs in developing strategies, management, and innovation. This can improve operational efficiency and competitiveness for MSMEs, potentially leading to increased income. Social capital allows MSMEs to collaborate with other parties in their network. This can include collaboration in the development of new products or services, marketing partnerships, or resource sharing. Such collaborations can help MSMEs achieve a larger scale and generate additional income.

In some cases, social capital can help MSMEs gain easier access to credit or financing from members of their social network or financial institutions with strong connections to that network. This can assist MSMEs in expanding their business and increasing their income. Relationships built through social capital tend to be stronger, which can result in more loyal customers. Customers who feel socially connected to MSMEs may be more inclined to continue buying their products or services, contributing to long-term income growth. Therefore, social capital can be a valuable asset for MSMEs in achieving growth and increased income. Hence, it is important for MSMEs to build and maintain strong social relationships within their business networks and utilize the resources and opportunities that can be generated from such social capital.

This research found that social capital has a positive and significant influence on MSME income, meaning that higher social capital among MSMEs will increase their income. This is evident from the positive regression coefficient value of 0.440 and its significance value of 0.000 < 0.005. This research aligns with the findings of previous studies by Hongyun et al. (2019), Yani et al. (2020), and Adeliza & Khoirul Anam (2022).

SUMMARY

Financial management with a financial freedom approach has a positive and significant impact on the income of micro, small, and medium enterprises (MSMEs) in the tourism sector. As the financial freedom of MSMEs in the tourism sector increases, their income is likely to improve. Financial freedom provides flexibility in managing business finances. Entrepreneurs who feel financially secure may not be as stressed by fluctuations in their business income. They can plan for the long term, manage assets wisely, and make strategic decisions that support income growth.

Financial technology has a positive and significant impact on the income of MSMEs. This means that increased use of financial technology can boost the income of MSMEs. By using financial technology through online platforms and electronic markets, MSMEs can sell their products or services to consumers. This enables them to reach a wider market and increase their income by reaching customers beyond their geographic region.

Social capital has a positive and significant impact on the income of MSMEs, indicating that higher social capital among MSMEs can increase their income. Through social capital, MSMEs tend to attract more loyal customers. Customers who have a social connection with MSMEs are more likely to continue purchasing their products or services. This can increase the income of MSMEs over the long term. Therefore, social capital can be a valuable asset for MSMEs in achieving growth and income improvement.

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