The Effect of Islamic Financial Literacy Level on the Success of Cost Reduction Programs in Micro, Small, and Medium Enterprises (MSMEs) in Makassar City

[1]Azwar Anwar, [2]Masnawaty Sangkala, [3]Febrina Nur Ramadhani

[1] Faculty of Economics and Business, Universitas Negeri Makassar
[2] Faculty of Economics and Business, Universitas Negeri Makassar
[3] Faculty of Economics and Business, Universitas Negeri Makassar

[1]azwar.anwar@unm.ac.id

ABSTRACT

This study aims to assess the level of Islamic financial literacy among micro enterprises in Makassar City and to analyse the effect of Islamic financial literacy on their ability to sustain business operations through cost-saving or cost reduction programs, based on cost control awareness by individuals within cost driver groups.

The data were collected using questionnaires. A random sample of 41 micro enterprises in Makassar City was obtained for this study. The data were analysed using a simple regression analysis technique. The results indicate that the level of Islamic financial literacy has a significant positive effect on the success of cost reduction strategies in micro enterprises in Makassar City. The influence of Islamic financial literacy on the success of cost reduction programs is approximately 85%. The conclusion is that the success of cost reduction strategies in MSMEs is largely determined by the Islamic financial literacy of their actors.

Keywords   : Islamic Financial Literacy; Cost Reduction; MSMEs

I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a major role in the economy. MSMEs are one of the pillars of the national economy. They hold promising potential for independence and prosperity for their actors. The existence of MSMEs is able to absorb labor and increase the utilization of local resources that have not yet been commercially processed (Sinuraya, 2020; Subagyo & Purnomo, 2022). MSMEs are very important for the growth of the private sector and make a significant contribution to the movement of business and the country's economy.

However, they appear to face greater financial constraints than large companies. Therefore, MSME financing has attracted great interest from scholars and practitioners around the world (Abdeldayem & Aldulaimi, 2022). Currently, the issue of **Islamic financial literacy** has become an important topic of discussion. Islamic financial literacy is also one of the essential requirements in *muamalah* activities, where Islamic financial activities, as part of *muamalah*, must naturally be based on Islamic principles. Nevertheless, Islamic financial literacy in Indonesia is still relatively low compared to conventional financial literacy. The Islamic financial literacy index in 2019 was 8.93% and in 2022 reached 9.14%.

In 2019, only 8 out of every 100 residents fell into the well-literate category, which increased to 9 people in 2022. This means there was only an addition of 1 well-literate person between 2019 and 2022. This is far different from the national survey results on conventional financial literacy, which showed an increase from 38.03% in 2019 to 49.68% in 2022. In terms of well-literate individuals, 38 out of every 100 residents were well-literate in 2019, rising to 50 people in 2022. This indicates an increase of 12 people between 2019 and 2022 (Nasution & Soemitra, 2024).

Financial literacy can influence individuals' perspectives on financial situations and how to make strategic and efficient decisions related to financial management and business ownership. The meaningful relationship between financial literacy and entrepreneurial performance lies in the fact that companies with strong financial literacy are able to strategically identify and respond to changes in the business, economic, and financial climate. This enables them to make decisions that create innovative and well-directed solutions to enhance performance and sustainable business (Rahayu & Musdholifa, 2017).

Cost reduction strategy is part of a competitive advantage strategy

carried out through various approaches, both technical and non-technical, or related to behavior (IInstitute of Management and Administration (IOMA), 2006). In cost management concepts, there are two types of strategies for determining cost or selling price, namely cost leadership and differentiation (product leadership) (Blocher et al., 2002). These strategies guide the cost reduction approach. Cost leadership is a strategy that seeks to achieve the lowest cost in its industry, while product leadership is a strategy to deliver innovative products to the market as quickly as possible.

The research problem in this study is whether the level of Islamic financial literacy affects the success (performance) of cost reduction programs. This research serves as a valuable contribution to the development of science, particularly in deepening knowledge and understanding of the influence of Islamic financial literacy as an independent variable in affecting the performance of MSMEs, especially in cost reduction programs.

II. RESEARCH METHOD

The population in this study consists of MSMEs registered with the Office of Cooperatives and MSMEs (Dinas Koperasi dan UKM) Kota Makassar. The sample obtained, after distributing questionnaires through a Google Drive link using Google Forms, amounted to 41 MSMEs with the following types of businesses;

Table 1. Businesses Types and Sum of Sample

| Nu.	Types	Sum
1.	Food & Beverage	19
2.	Culinary	12
3.	Fashion	5
4.	Hand Made	3
5.	Rent Service	1
6.	Reparation Service	1
	Total	41

Source: Questionnaire (2024)

This research uses data quality tests, which consist of two types: validity test and reliability test. This study employs a simple regression equation to examine the influence of the independent variable on the dependent variable.

III. RESULTS AND DISCUSSION

The results of the validity and reliability tests show that the independent variable meets the criteria. A variable is considered valid if it has a positive correlation coefficient greater than 0.3, and all data for both the independent and dependent variables are greater than 0.3. Similarly, the results of the reliability test indicate a Cronbach's Alpha value of 0.878, which, according to the rule of thumb, is considered reliable if the Cronbach's Alpha value is greater than 0.7 (see appendix).

Based on the results of the classical assumption tests as a prerequisite for regression analysis, the findings indicate that the data are normally distributed and there is no heteroscedasticity.

Figure 1. Histogram Normality of Data
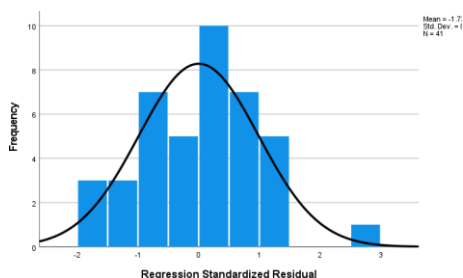
Normality can also be verified through the results of the Kolmogorov-Smirnov test, where the data are considered normally distributed if the significance value is greater than 0.05 (see appendix).

Based on the results of the heteroscedasticity test, no clear pattern was observed, and the scatterplot points were dispersed above and below zero on the Y-axis. Therefore, it can be concluded that heteroscedasticity is not present, as illustrated in the following figure.

Figure 2. Scatterplot heteroscedasticity test
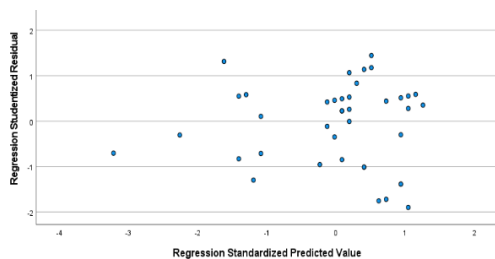
Source: Processed Data (2024)

Based on the regression test results (see appendix), it is shown that the Islamic Financial Literacy variable has a significant positive effect on the Cost Reduction Strategy. The regression coefficient is 0.862, which means that an increase of one unit in the level of Islamic Financial Literacy will increase Cost Reduction by 0.862. The regression equation can be written as follows:

$$Y= -2.747 + 0{,}862X$$

Based on the results of hypothesis testing using simple linear regression, a significant value was obtained, indicating that Islamic financial literacy can support cost reduction programs. This finding is consistent with the study of Andrew & Linawati (2014), which stated that there is a significant relationship between financial knowledge and financial behavior, where the higher a person's financial knowledge, the wiser they tend to be in managing their finances. The results are also in line with the research of Anwar et al., (2024) which stated that Islamic values can strengthen the impact of cost reduction programs such as Kaizen. This study further provides evidence that Islamic financial literacy is essential for business actors in supporting the financial performance of their enterprises.

Based on coefficient determinant test, getting results value of R^2 is 0.857 (see table 2). It means that 85.7% success of cost reduction strategy affected from Islamic financial literacy. In line with the study of Aribawa (2016), which

confirmed the influence of financial literacy on the performance and sustainability of creative MSMEs in Central Java, this finding implies that with adequate financial literacy, MSMEs are expected to be able to make appropriate managerial and financial decisions to enhance performance and business sustain-ability. This is also inseparable from cost reduction issues, which have implications for increasing company profitability.

Table 2. Coefficient Determination Test Result

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.910ᵃ	.827	.823	3.77121	2.233

a. Predictors: (Constant), Islamic Finance Literacy

b. Dependent Variable: Cost Reduction Strategy

The influence of financial literacy on the success of cost reduction is substantial and significant. Islamic financial literacy is a major asset that business owners must possess to maintain and enhance financial performance, particularly in improving profitability through cost reduction. This is also consistent with Social Cognitive Theory, which posits that cognitive abilities can stem from an individual's personal beliefs and standards, such as values or personal norms, which then function to guide one's actions, referred to as self-regulation.

IV. CONCLUSION

This study provides empirical evidence that financial literacy determines the success of financial performance strategies, particularly cost reduction. Islamic financial literacy has a positive and significant effect on the successful implementation of cost reduction strategies. However, this study has limitations, namely time constraints that resulted in a limited number of samples obtained through the return of questionnaire forms. In addition, the sample was drawn only from MSMEs in a single city. Future research is expected to increase the number of samples, expand research locations, and include additional variables to obtain more comprehensive and robust results.

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APPENDIX

Reliability Statistics

Cronbach's Alpha	N of Items
.878	41

Validity Test Result of Questionnaires

Statement	R Count	R Table	Decision
P1	0,6588	0,3081	valid
P2	0,7127	0,3081	valid
P3	0,7558	0,3081	valid
P4	0,8269	0,3081	valid
P5	0,8896	0,3081	valid
P6	0,9068	0,3081	valid
P7	0,9330	0,3081	valid
P8	0,8916	0,3081	valid
P9	0,9302	0,3081	valid
P10	0,6020	0,3081	valid
P11	0,9364	0,3081	valid
P12	0,9141	0,3081	valid
P13	0,8706	0,3081	valid
P14	0,7122	0,3081	valid
P15	0,9111	0,3081	valid
P16	0,9139	0,3081	valid
P17	0,9288	0,3081	valid
P18	0,7565	0,3081	valid
P19	0,9455	0,3081	valid
P20	0,6897	0,3081	valid
P21	0,7699	0,3081	valid
P22	0,8059	0,3081	valid

Coefficientsa

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-2.503	3.055		-.819	.418
	Literasi Keuangan Syariah	.868	.064	.910	13.665	.000