



The influence of financial literacy and the quality of financial reports on MSME performance

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ARTICLE INFO	ABSTRACT
Article history: Received Aug 10, 2026 Revised Aug 20, 2026 Accepted Sep 29, 2026 Keywords: Financial Literacy; MSME performance; Quality of Financial Reports.	Previous studies have reported inconsistent findings regarding the relationship between financial literacy, financial reporting quality, and MSME performance. While several studies have found that financial literacy and financial reporting quality positively influence MSME performance, other studies have reported insignificant effects, indicating the need for further empirical examination. This study aims to examine the influence of financial literacy and financial reporting quality on MSME performance in Surabaya by considering both variables simultaneously as complementary dimensions of MSME financial capability. A quantitative approach was employed using questionnaire data collected from MSME owners in Surabaya. A total of 400 questionnaires were distributed, of which 384 complete and usable responses were obtained, resulting in a final analytical sample of 384 respondents. The data were analyzed using multiple linear regression with the assistance of SPSS. The results show that financial literacy has a positive and significant effect on MSME performance ($\beta = 0.206$; $t = 5.753$; $p < 0.001$), while financial reporting quality also has a positive and significant effect ($\beta = 0.390$; $t = 9.778$; $p < 0.001$). The model explains 42.9% of the variation in MSME performance ($R^2 = 0.429$). These findings contribute to the literature by integrating owner-level financial capability and financial information quality within a single framework for explaining MSME performance. The study suggests that improving MSME performance requires not only strengthening financial knowledge and decision-making skills but also improving the quality of financial information used for business management. <i>This is an open access article under the CC BY-NC license.</i>



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1. INTRODUCTION

Financial management remains an important managerial challenge for Micro, Small, and Medium Enterprises (MSMEs), particularly because business owners must make financial decisions despite differences in financial knowledge, accounting practices, and the availability of reliable financial information. Two factors that are particularly relevant to this issue are financial literacy and financial reporting quality. Financial literacy concerns the ability of business owners to understand and use financial information in making decisions, whereas financial reporting quality concerns the extent to which the financial information produced by the business is relevant, reliable, complete, understandable, and useful for decision-making. Although both factors are theoretically relevant to

business performance, empirical findings regarding their effects on MSME performance remain inconsistent.

Despite their important role, MSMEs still face various challenges in business management, one of which is financial management. MSMEs generally focus more on operations, production, and marketing, while financial management and transaction recording are not always optimal. This situation can make it difficult for business owners to accurately assess their business's financial condition and make informed decisions. One factor that can influence the ability of MSMEs to manage their finances is financial literacy. Financial literacy encompasses mastery, comprehensive understanding, and individual skills in utilizing financial data to make informed decisions. Particularly within the MSME sector, financial literacy plays a crucial role in helping business owners develop financial plans, manage cash flow, control expenses, calculate capital requirements, and assess business performance (Hasan et al., 2024; Molosiwa & Holland, 2025).

The urgency of financial literacy is increasing, given that the accuracy of business owners' financial decisions directly impacts the company's survival. Entrepreneurs with mature financial insight are generally more adept at managing assets and mitigating commercial risks. Therefore, strengthening financial capacity is believed to boost MSME performance. In line with this, Kasenda & Wijayanka (2019) demonstrated that financial literacy significantly impacts MSME performance through research on 35 PPKM-assisted business units in the Rancaekek and Cileunyi areas, with a contribution rate of 49.8%. This finding is corroborated by Idawati & Pratama (2020), who examined the existence and performance of MSMEs in Denpasar City, emphasizing that financial literacy plays an essential role in long-term success. Furthermore, Wuryani (2026) identified a similar relationship in the MSME sector in Sidoarjo. Similarly, a study by Prakoso (2020), reinforces the argument that financial literacy influences the performance of MSMEs. However, the literature also notes inconsistencies; Sariningsih et al. (2025) reported that financial literacy had no significant impact on business performance.

Besides financial literacy, the quality of financial reports is another crucial factor in managing MSMEs. Financial reports provide information on revenue, expenses, assets, liabilities, equity, and business results. This information can be used by MSME owners to understand business conditions, evaluate performance, control costs, set prices, and plan business development. The quality of financial reports is crucial because inaccurate or incomplete reports can lead to business owners obtaining an inaccurate picture of business conditions. Conversely, well-prepared financial reports can help business owners obtain more relevant information to support decision-making. Pakpahan (2020) identified the crucial role of financial report quality in MSME performance through a study of 100 MSMEs in Medan. The study concluded that high-quality financial reports serve as a transaction recording tool. This finding aligns with the findings of Saragih & Daulay (2025) who investigated the MSME sector in Tanjung Rejo Village, Medan Sunggal District, where financial report quality was shown to have a significant positive impact on business performance. However, the literature also notes contradictory results; one example is research by Partini et al. (2025), which showed that financial report quality had no direct impact on MSME performance.

Differences in previous research findings indicate that the relationship between financial literacy, financial reporting quality, and MSME performance remains empirically inconclusive. Previous studies generally examine financial literacy as an individual determinant of MSME performance, while others focus on financial reporting quality as a determinant related to accounting. Kasenda & Wijayanka (2019), Idawati & Pratama (2020), and Wuryani (2026) report a positive relationship between financial literacy and MSME performance, while Sariningsih et al. (2025) find no significant effect. Similarly, Pakpahan (2020) and Saragih and Daulay (2025) find that financial reporting quality positively influences MSME performance, while Partini et al. (2025) report no direct effect. This inconsistency suggests that the contribution of financial knowledge and financial information quality to MSME performance cannot yet be considered conclusive.

The novelty of this study lies in the simultaneous examination of financial literacy and financial reporting quality as complementary determinants of MSME performance within the same empirical model. While previous studies have largely investigated these factors independently or incorporated them into models involving other variables such as financial inclusion, financial

technology, financial access, or mediation mechanisms, this study focuses specifically on the joint contribution of financial knowledge and financial information quality to MSME performance. The study therefore addresses the gap between the ability of MSME owners to understand financial matters and the availability of reliable financial information that can be used in managerial decision-making. The novelty is consequently not merely the geographical setting, but the integrated perspective used to examine two complementary dimensions of MSME financial capability.

Surabaya provides a relevant empirical setting for examining the relationship between financial literacy, financial reporting quality, and MSME performance. According to the Statistics of Surabaya Municipality (BPS Kota Surabaya), the number of MSMEs in Surabaya reached approximately 325,000 units in 2025 (BPS Kota Surabaya, 2025). This substantial MSME population reflects a large and diverse urban business environment in which differences in owners' financial knowledge, financial management practices, and financial reporting practices may influence business performance. In addition, previous research has examined the relationship between financial literacy and MSME performance in Surabaya (Amri & Iramani, 2018). However, the present study extends this evidence by examining financial literacy together with financial reporting quality within the same empirical framework. Therefore, Surabaya is relevant not merely because of its large number of MSMEs, but because it provides an established and heterogeneous urban MSME context for examining the complementary roles of financial capability and financial information quality in business performance. Accordingly, this study aims to examine the influence of financial literacy and financial reporting quality on MSME performance in Surabaya.

2. RESEARCH METHOD

This study employed a quantitative associative research design. Primary data were collected directly from MSME owners in Surabaya using a structured questionnaire. The target population comprised MSMEs operating in Surabaya City. According to the Statistics of Surabaya Municipality (BPS Kota Surabaya, 2025), the number of MSMEs in Surabaya reached approximately 325,000 business units. The initial sample size was determined using the Slovin formula with a 5% margin of error. Accordingly, 400 questionnaires were distributed to eligible MSME owners.

However, not all distributed questionnaires were returned. Of the 400 questionnaires distributed, 384 were returned in complete and usable form. Therefore, the final analytical sample consisted of 384 respondents, representing a 96% usable response rate. All statistical analyses in this study were conducted using the 384 valid observations, rather than the initial target of 400 respondents.

Purposive sampling was employed because the study required respondents who possessed direct knowledge of their business operations and financial management. Respondents were selected based on the following criteria: (1) the respondent was the owner and actively managed an MSME operating in Surabaya; (2) the business had been operating for at least one year; and (3) the respondent was directly involved in managing the financial activities of the business.

Table 1. Operational definition of variables

Variables	Operational definition	Indicator	Source
Financial Literacy (X1)	The ability of MSME owners/managers to understand and apply financial knowledge to manage business finances and make appropriate financial decisions.	1. Financial knowledge 2. Financial management skills 3. Financial planning skills 4. Financial decision-making skills	Kasenda & Wijayanka (2019); Idawati & Pratama (2020)
Quality of Financial Reports (X2)	The level of quality of information generated from recording and preparing MSME financial reports so that it can be used to determine business conditions and support decision making.	1. Relevance of information 2. Reliability of information 3. Completeness of information 4. Comparability of information 5. Understandability of information	Pakpahan (2020); Sariningsih et al. (2025)
MSME Performance (Y)	The level of achievement of MSMEs in carrying out business activities is reflected in the development of business results and conditions.	1. Sales growth 2. Profit growth 3. Customer growth 4. Asset growth	Kasenda & Wijayanka (2019); Idawati & Pratama (2020)

Variables	Operational definition	Indicator	Source
		5. Business growth	

The obtained data was then analyzed using statistical software. The data analysis stages included descriptive statistical analysis, instrument quality testing, classical assumption testing, multiple linear regression analysis. The multiple linear regression model used was:

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

Information:

Y	= MSME Performance
α	= Constant
β_1, β_2	= Regression coefficient
X_1	= Financial literacy
X_2	= Quality of financial reports
e	= Error

3. RESULTS AND DISCUSSIONS

Respondent Characteristic

This study used primary data collected through questionnaires distributed to MSME owners in Surabaya. A total of 400 questionnaires were distributed, of which 384 questionnaires were returned and completed appropriately for further analysis. Thus, the response rate was 96%, while 16 questionnaires (4%) were excluded because they were incomplete or did not meet the requirements for analysis.

To provide a more comprehensive description of the sample, the respondent characteristics and MSME profiles should be presented before the analysis of the research variables. The respondent characteristics include gender, age, and educational level, while the MSME profile includes business sector, business age, and number of employees. The distribution of respondents and MSMEs is presented in Table 2.

Table 2. Respondent characteristics and MSME profiles

Characteristics	Category	Frequency	Percentage (%)
Gender	Male	174	45.3
	Female	210	54.7
Age	26-35 years	112	29.2
	36-45 years	109	28.4
	46-55 years	163	42.4
	SMA	208	54.2
Education	Diploma	78	20.3
	S1	98	25.5
	Food and Beverages	198	51.6
Business Sector	Retail	103	26.8
	Servis	59	15.4
	Craft	24	6.3
Business Age	< 5 years	68	17.7
	5 - 10 years	157	40.9
	> 10 years	159	41.4
	< 5 people	64	16.7
Number of Employees	5 - 10 people	176	45.8
	> 10 people	144	37.5

Variable Description

This descriptive evaluation included the minimum, maximum, and average (mean) values for each variable construct, with a detailed summary of the results presented in Table 3.

Table 3. Description of research variables

Variables	N	Minimum	Maximum	Mean	Std Deviation
Financial Literacy	384	3.0	5.0	4.26	0.505
Quality of Financial Report	384	3.0	5.0	4.01	0.452
MSME Performance	384	3.1	5.0	4.11	0.383

Based on Table 3, financial literacy had a minimum score of 3.00 and a maximum score of 5.00, with a mean of 4.26 and a standard deviation of 0.505. The relatively high mean indicates that respondents generally reported a good level of financial literacy. The quality of financial reports had a minimum score of 3.00 and a maximum score of 5.00, with a mean of 4.01 and a standard deviation of 0.452. The mean indicates that respondents generally perceived the financial reports produced or maintained by their businesses to be of relatively good quality. MSME performance recorded a minimum score of 3.10 and a maximum score of 5.00, with a mean of 4.11 and a standard deviation of 0.383. This finding indicates that the respondents generally assessed their business performance positively.

Validity and Reliability Test

Validity testing was conducted to assess the extent to which each statement item was able to accurately measure the construct of the research variable. This evaluation was carried out by comparing the calculated correlation coefficient value (r calculated) with the critical value in the statistical table (r table). Based on a sample of 384 respondents, an instrument item was declared valid if its calculated r value exceeded the r table threshold of 0.098. A comprehensive summary of the validity test results is presented in the table below.

Table 4. Validity and reliability test results

Variable	Validity				Reliability		
	Item	R-calculated	r-table	p-value	Decision	Cronbach Alpha	Decision
Financial Literacy	FL1	0.719	0.098	0.000	Valid	0.850 > 0,70	Reliable
	FL2	0.715	0.098	0.000	Valid		
	FL3	0.761	0.098	0.000	Valid		
	FL4	0.715	0.098	0.000	Valid		
	FL5	0.667	0.098	0.000	Valid		
	FL6	0.706	0.098	0.000	Valid		
	FL7	0.617	0.098	0.000	Valid		
	FL8	0.687	0.098	0.000	Valid		
Quality of Financial Report	QFR1	0.568	0.098	0.000	Valid	0.796 > 0,70	Reliable
	QFR2	0.541	0.098	0.000	Valid		
	QFR3	0.612	0.098	0.000	Valid		
	QFR4	0.458	0.098	0.000	Valid		
	QFR5	0.557	0.098	0.000	Valid		
	QFR6	0.507	0.098	0.000	Valid		
	QFR7	0.673	0.098	0.000	Valid		
	QFR8	0.705	0.098	0.000	Valid		
	QFR9	0.670	0.098	0.000	Valid		
	QFR10	0.655	0.098	0.000	Valid		
MSME Performance	MP1	0.589	0.098	0.000	Valid	0.723 > 0,70	Reliable
	MP2	0.596	0.098	0.000	Valid		
	MP3	0.630	0.098	0.000	Valid		
	MP4	0.651	0.098	0.000	Valid		
	MP5	0.465	0.098	0.000	Valid		
	MP6	0.497	0.098	0.000	Valid		
	MP7	0.473	0.098	0.000	Valid		
	MP8	0.485	0.098	0.000	Valid		
	MP9	0.504	0.098	0.000	Valid		
	MP10	0.429	0.098	0.000	Valid		

Classical Assumption Test

Normality Test

The visual assessment was conducted using the Normal P-P Plot, while the statistical assessment employed the One-Sample Kolmogorov-Smirnov test.

Normal P-P Plot of Regression Standardized Residual

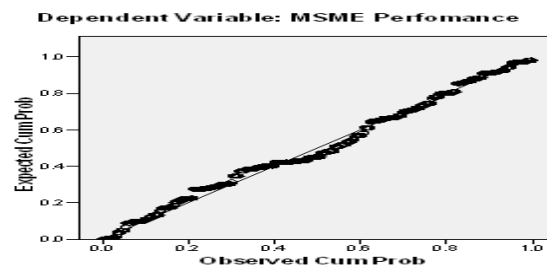


Figure 1. Normality test results

Figure 1 shows that the residual observations generally follow and cluster around the diagonal reference line. Although minor deviations can be observed at several points, the overall distribution does not show a substantial departure from the expected normal pattern. Therefore, based on the visual assessment, the regression residuals can be considered approximately normally distributed. To complement the visual assessment, a formal statistical test was conducted using the One-Sample Kolmogorov-Smirnov test on the unstandardized residuals.

Table 5. One-sample kolmogorov-smirnov test of regression

	Unstandardized Residual	Results
Kolmogorov-Smirnov Z	1.221	Normal
Asymp. Sig. (2-tailed)	0.101	

Multicollinearity Test

Multicollinearity testing is performed to detect the presence or absence of a strong correlation or relationship between the independent variables in a regression model. Evaluation of this issue is crucial because the presence of multicollinearity can compromise the precision of regression coefficient estimates and distort the accuracy of interpreting the influence of each independent variable on the dependent variable.

Table 6. Multicollinearity test results

Variables	Tolerance	VIF	Results
Financial Literacy	0.673	1,485	Non-Multicollinearity
Quality of Financial Report	0.673	1,485	Non-Multicollinearity

Heteroscedasticity Test

In order to ensure the stability of the residual variance in the model, a heteroscedasticity test was carried out to check whether there were differences in the residual variance between observations.

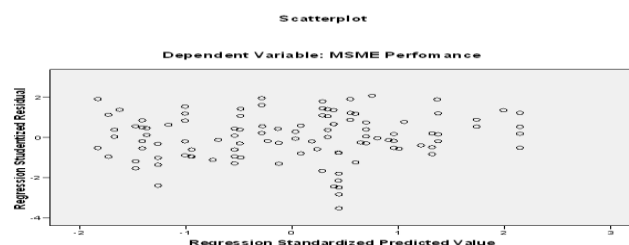


Figure 2. Results of heteroscedasticity test

Figure 2 shows a relatively random distribution pattern that does not form a specific pattern. The points are also scattered around the line or zero value on the residual axis. Based on the test results obtained, it can be concluded that the regression model used is free from indications of heteroscedasticity disorders.

Coefficient of Determination

Based on the coefficient of determination test results, an R^2 value of 0.429 and an Adjusted R^2 value of 0.426 were obtained. The R^2 value of 0.429 indicates that the variables Financial Literacy and Quality of Financial Report, acting together, explain 42.9% of the variation in the MSME Performance variable, while the remaining 57.1% is explained by other factors not included in this research model. Meanwhile, the Adjusted R^2 value of 0.426 indicates that, after adjusting for the number of independent variables and the sample size, the model's ability to explain the variation in MSME performance is 42.6%. Thus, the research model possesses adequate explanatory power, although other factors outside the model also influence MSME performance.

Model Feasibility Test

Based on the results of the Model Feasibility Test (F-test), an F-value of 143.313 was obtained, with a significance value of 0.000 (< 0.05). These results indicate that the regression model used in this study is feasible and statistically significant.

Hypothesis Testing

Hypothesis testing was conducted to analyze the impact of independent variables, including Financial Literacy and Quality of Financial Reports, on the dependent variable, MSME Performance. A comprehensive summary of the results of the hypothesis testing using a multiple linear regression analysis approach is presented in the following table.

Table 7. Hypothesis testing

Variables	Regression Coefficient	Std. Error	Standardized Coefficients Beta	t	Sig.	95% CI Lower	95% CI Upper	Results
(Constant)	1.667	0.146		11.444	0.000	1.381	1.953	
Financial Literacy	0.206	0.036	0.271	5.753	0.000	0.136	0.276	Significant
Quality of Financial Report	0.390	0.040	0.461	9.778	0.000	0.312	0.469	Significant

Discussion

The Influence of Financial Literacy on MSME Performance

Financial literacy impacts MSME performance, meaning that the better the financial knowledge, behavior, and attitudes of MSMEs, the greater their ability to rationally manage budgets, cash flow, debt, investments, and business risks. Mastery of financial literacy extends beyond the ability to understand monetary principles, but also encompasses the ability to utilize this information to formulate company operational policies. Armed with these competencies, MSMEs with a higher level of financial understanding tend to be more adept at maximizing the efficiency of resource allocation and ensuring long-term business continuity.

The results of this research align with and are supported by a number of previous studies, such as studies by Herrera et al. (2023), Widyastuti et al. (2023), and Rohaeni et al. (2026), which confirm that financial literacy has a positive impact on the performance of MSMEs. Financially competent business owners tend to be better prepared to target funding opportunities, mitigate business risks, and increase commercial productivity. Similar arguments are also emphasized by Ali et al. (2025), Fikri & Nahda (2023), Suryanto et al. (2024), Aritonang et al. (2022), Kumar et al. (2025) and Anggadini et al. (2025), who found a significant influence of financial literacy on the operational performance of business entities. The implications of these findings suggest the need for a more holistic approach. Improving financial literacy must be integrated with expanding the accessibility of financial services and utilizing information technology.

This research finding is further supported by studies by Riyadi & Hadyarti (2024), Windi & Inda (2023), and Gunawan (2023), which found that MSME performance is positively and significantly influenced by financial literacy levels, a conclusion that underscores the crucial importance of financial training programs for entrepreneurs. This positive impact is manifested because a thorough understanding of various financial concepts, such as structured bookkeeping, debt management, and budgeting, enables MSMEs to administer capital resources more efficiently and effectively. This theoretical argument aligns with the view of Amri & Iramani (2018), who stated that financial literacy is a key determining factor in boosting business performance.

In other words, financial literacy helps entrepreneurs make more rational business decisions, avoid capital mismanagement, and be better prepared for business risks. Financial literacy plays a crucial role in improving the quality of financial management, particularly in financial planning, cost control, debt management, and the formulation of more rational business strategies (Hendayani et al., 2026). The findings of this study also align with studies conducted by Kasenda & Wijayanka (2019), Idawati & Pratama (2020), Wuryani (2026), Yakob et al. (2021), and Prakoso (2020), which demonstrated the influence of financial literacy on MSME performance. However, these findings do not align with the findings of Irawati & Lubis (2022) and Sariningsih et al. (2025), who concluded that financial literacy does not impact the performance of small and medium enterprises.

The Influence of Quality of Financial Reports on MSME Performance

The quality of financial reports influences MSME performance, meaning that the better the quality of financial reports prepared by MSMEs, the better the business performance they can achieve. The increasingly stringent use of accounting standards has proven effective in improving the quality of financial administration and driving maximum business performance. This study confirms that adherence to accounting regulations has a significant positive impact on the performance of MSMEs. This indicates that the application of robust accounting standards will directly impact improved financial governance and boost business productivity. These findings also emphasize that financial reports function not merely as an administrative complement, but also reflect the level of professionalism of a business entity in managing its operations. The more relevant, reliable, transparent, and understandable the financial information prepared by MSMEs, the better the business owner's ability to evaluate business conditions and make informed decisions. Quality financial reports can provide a more accurate picture of revenue, expenses, assets, liabilities, and cash flow, thereby helping MSMEs identify operational problems and allocate resources efficiently (Auliyah & Agit, 2024).

High-quality financial reports also improve the decision-making capacity of MSME owners. Financial information enables entrepreneurs to compare actual results with business plans, evaluate the effectiveness of expenditure, determine whether debt can be repaid, and assess the feasibility of business expansion. In addition, systematic financial reports can increase transparency and accountability, thereby strengthening the confidence of external stakeholders such as banks, investors, suppliers, government agencies, and business partners. Ciza et al. (2025) and Haliana & Endarwati (2026) found that the quality of accounting information was related to SME financial performance, with bank and informal financing playing an important mediating role. This finding indicates that quality financial information may improve performance partly because it increases the ability of SMEs to obtain and use external financing.

This positive impact occurs because the ability to prepare financial reports is a crucial aspect that is often overlooked by MSMEs. Difficulty measuring performance is a major issue for MSMEs in evaluating their business performance, as MSMEs focus more on operational activities, often neglecting financial recording and reporting. When financial reports are well-prepared, business owners have a more reliable information base for monitoring cash flow, controlling costs, and planning for business growth in a more measurable manner. Quality financial reports enable MSMEs to conduct business planning, control costs, evaluate profitability, and assess business development more objectively. Furthermore, systematically prepared financial reports can increase transparency, accountability, and build trust from external parties, including financial institutions and business partners. The results of this study align with Pakpahan (2020), Saragih & Daulay (2025) which found that the quality of reports affects the performance of MSMEs. However, the results of this study do not support this. Partini et al. (2025) which found that the quality of financial reports does not affect the performance of MSMEs.

The implementation of the Financial Accounting Standards for Micro, Small, and Medium Entities (SAK EMKM) is a crucial tool in improving the quality of MSME financial reports. These standards offer more concise and applicable guidelines regarding the recognition, measurement, presentation, and disclosure of an entity's financial transactions. Financial reports prepared based on appropriate standards can produce more consistent and comparative information, thus significantly assisting business actors and stakeholders in evaluating performance and business

sustainability prospects. However, the impact of financial report quality on performance is not always automatic; its effectiveness still depends heavily on the owner's accounting competency, technology utilization, the effectiveness of internal controls, and the MSME's in-depth understanding of applicable accounting standards (Nikmatunyah et al., 2023).

4. CONCLUSION

Financial literacy and quality financial reporting are two crucial factors that can support improved MSME performance. Financial literacy helps business owners understand how to manage capital, revenue, costs, cash flow, financing, and business risks. This understanding enables MSMEs to make more informed financial decisions, avoid unproductive use of funds, and improve business efficiency and sustainability.

The quality of financial reports also plays a role in providing accurate, relevant, reliable, and easy-to-understand information about business conditions. Complete and consistent transaction recording helps MSMEs monitor revenue, expenses, profits, assets, and liabilities. Furthermore, quality financial reports can increase transparency, facilitate performance evaluation, and increase MSMEs' opportunities to obtain financing from financial institutions. Therefore, the higher the level of financial literacy and the better the quality of financial reports an MSME has, the greater their ability to manage resources, make business decisions, improve efficiency, and achieve better business performance.

For MSMEs, improving financial literacy through training, seminars, mentoring, and utilizing trusted financial information sources is crucial. Business owners are also advised to separate personal and business finances to allow for more objective financial monitoring. When preparing financial reports, MSMEs need to record transactions routinely, completely, and consistently. Using a financial recording application can help improve record-keeping accuracy and simplify financial report preparation.

Research limitations, focusing the study solely on the city of Surabaya limits the generalizability of the findings, as the characteristics, local regulations, and economic accessibility of MSMEs in Surabaya may differ from those in other metropolitan areas. Data collection relying on questionnaires (self-assessments) completed by MSME owners or managers is susceptible to perceptual bias, as respondents tend to subjectively evaluate the quality of their financial reports and business performance without the verification of actual financial documents.

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