

## **Improving the Digital-Based Financial Management Capacity of MSMEs to Enhance Community Economic Competitiveness**

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### **Abstract**

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in boosting economic growth, but they still face various challenges in financial management, particularly related to transaction recording, financial planning, and the use of digital technology. This community service program aims to improve the digital-based financial management capacity of MSMEs to strengthen their economic competitiveness. The program implementation method includes identifying partner needs, simple financial management training, mentoring in the use of digital financial recording applications, and evaluating the implementation of business financial management systems. Participants were MSMEs in the target area who have limitations in implementing technology-based financial management. The results of the program showed an increase in participants' understanding and skills in systematic financial recording, separating business and personal finances, and preparing simple financial reports using digital applications. In addition, business owners began to be able to utilize financial data for business planning and economic decision-making. This program also resulted in increased business management efficiency and opened up market expansion opportunities through integration with digital platforms. Therefore, strengthening digital-based financial management capacity is a crucial strategy in supporting business sustainability and increasing community economic competitiveness. This program is recommended to be continued through ongoing mentoring to ensure the consistent implementation of digital financial management in MSMEs.

**Keywords:** MSMES, Digital Financial Management, Community Economic Empowerment, Financial Literacy

### **Introduction**

Micro, Small, and Medium Enterprises (MSMEs) play a strategic role in supporting national and local economic growth due to their ability to reach various productive business sectors and promote economic equality, even in rural areas. MSMEs are the primary drivers of community-based economic activity through the utilization of local resources and the creation of added value in products and services. In addition to providing goods and services to the community, MSMEs also serve as pillars of economic stability, especially during economic crises, due to their relatively flexible and adaptive business characteristics to market changes. The contribution of MSMEs to gross domestic product and local economic activity demonstrates that this sector plays a significant role in strengthening national economic resilience while improving public welfare through more equitable income

distribution (Organization for Economic Co-operation and Development [OECD], 2021).

Furthermore, MSMEs also contribute significantly to employment and reduce unemployment rates, particularly for low- and medium-skilled workers who are difficult to absorb by large-scale industrial sectors. The existence of MSMEs enables communities to obtain employment opportunities and create independent businesses, thereby reducing household economic pressures. However, MSMEs currently face significant challenges in navigating economic competition in the digital era, particularly related to limited technological literacy, access to digital platforms, and IT-based business management capabilities. Digital transformation requires MSMEs to adopt digital business management and marketing systems to remain competitive in an increasingly competitive global market. Therefore, improving digital capacity and business management is crucial to ensuring the sustainability and competitiveness of MSMEs in the future (World Bank, 2020).

The main problem still faced by Micro, Small, and Medium Enterprises (MSMEs) is closely related to weak financial management, which is often not carried out systematically and professionally. Many MSMEs operate their businesses based on practical experience without adequate financial record-keeping, making it difficult to monitor cash flow, business profits, and future business development needs. This condition is exacerbated by the low level of financial literacy among entrepreneurs, which leads to limited understanding of basic financial management concepts, business planning, and the use of formal financial products and services. As a result, business decisions are often made without being based on accurate financial data, increasing the risk of business management errors (Lusardi & Mitchell, 2014).

Furthermore, other frequently encountered problems include minimal recording of business transactions and the frequent mixing of personal and business finances. This practice makes it difficult for MSMEs to objectively measure business performance, determine actual profit levels, and plan sustainable business expansion. Poor financial management also impacts businesses' ability to access formal financing due to the lack of reliable financial reports from financial institutions. In the long term, these conditions can hamper business growth and even increase the risk of business failure, so increasing financial management capacity is an important factor in maintaining the sustainability of MSMEs amidst increasingly competitive economic competition (Organization for Economic Co-operation and Development [OECD], 2020).

The development of digital technology has brought significant changes to business management, including marketing, financial record-keeping, transaction management, and data-driven decision-making. However, the digitalization process for MSMEs still faces various challenges, particularly the low utilization of digital financial applications by small business owners due to limited digital literacy and a lack of understanding of the benefits of technology in business management. Furthermore, the technological gap among MSMEs, particularly in non-urban areas, has slowed technology adoption, making it difficult for businesses to compete in an increasingly digitalized market. This situation demonstrates that digital transformation requires not only the availability of technology but also increased

human resource capacity so that MSMEs can optimally utilize digital technology to increase business efficiency and competitiveness (World Bank, 2021).

The urgency of implementing community service programs to strengthen the financial management capacity of MSMEs is increasing in line with the demands of digital transformation in business management. Improving the ability of MSMEs to utilize digital-based financial technology is a crucial need to manage their businesses more transparently, efficiently, and sustainably. In this context, universities have a strategic role as agents of change through mentoring and community economic empowerment activities, particularly in improving financial literacy and the ability to utilize digital technology in the small business sector. Training and mentoring programs on the use of simple financial technology are needed to enable business actors to implement systematic financial recording systems, understand business cash flow, and optimize the use of financial data in business planning. This allows MSMEs to improve their resilience and economic performance amidst increasingly competitive markets (Organization for Economic Co-operation and Development [OECD], 2021).

As a concrete solution, community service activities can be implemented through digital financial record-keeping training, mentoring on the use of business financial management applications, education on separating personal and business finances, and strengthening simple financial analysis skills to support business decision-making. These efforts aim to improve the financial management capabilities of MSMEs in a sustainable manner, encourage the adoption of digital technology in business management, and strengthen the economic competitiveness of communities by strengthening MSME capacity. With structured mentoring, business actors are expected to be able to manage their businesses more professionally, improve operational efficiency, and open up broader business development opportunities through the use of digital technology as a means of increasing productivity and market access (World Bank, 2020).

### **Research Methods**

This community service activity uses a participatory approach with a mentoring model based on the needs of MSME partners. The activity begins with problem identification through field observations and interviews with business owners to determine the current state of their business financial management. Next, a training program is designed, covering topics such as simple financial record keeping, separating business and personal finances, and introducing digital financial applications that are easy for MSMEs to operate. The training method combines material delivery, hands-on application practice, group discussions, and business transaction recording simulations, enabling participants to understand and apply the acquired skills directly to their business activities.

The next stage involves intensive mentoring for participants in implementing a digital financial record system in their respective businesses, including guidance on preparing simple financial reports and analyzing business cash flows. Evaluation of the program involves measuring participants' understanding, ability to use financial applications, and behavioral changes in business financial management before and after the program. Furthermore, monitoring of the sustainability of the

digital financial system in participants' business operations is conducted. This method is expected to result in a sustainable increase in MSME financial management capacity and have a tangible impact on improving the performance and competitiveness of community businesses.

## **Result and Discussion**

Improving the Capacity of Digital-Based MSME Financial Management to Enhance Community Economic Competitiveness. Based on the implementation of a community service program focused on improving the capacity of digital-based MSME financial management, several key findings were obtained. First, there was an increase in MSME owners' understanding of the importance of systematic business financial recording after participating in training and mentoring. Prior to the program, most participants had not recorded transactions regularly and were still mixing personal and business finances. After mentoring, entrepreneurs began recording daily transactions using a simple digital application and were able to separate business cash flow from personal needs. This change resulted in increased control over their business finances, including the ability to more accurately determine business profits.

Further findings showed that the use of digital financial applications helped MSME owners prepare simple financial reports and conduct better business planning. Participants began using financial data as a basis for decision-making, such as controlling production costs, determining product prices, and planning business development. The program also increased entrepreneurs' confidence in facing market competition, particularly in utilizing digital platforms for marketing and business transactions. Overall, improving the capacity of digital-based financial management has been proven to support business management efficiency and strengthen community economic competitiveness by strengthening the local MSME sector. The results of the community service can be seen in Figure 1.



**Figure 1.** Improving MSME financial management

The image depicts an integrative model for enhancing digital-based financial management capacity for MSMEs as a strategy to strengthen the community's economic competitiveness. The visualization shows a series of activities starting with digital financial training and MSME mentoring, followed by the

implementation of neat financial record keeping, the preparation of accurate financial reports, and the separation of business and personal finances. This process is continued with the use of business analytics to improve business management efficiency and expand market access through digital platforms. Conceptually, the image emphasizes that improving technology-based financial management competency not only improves business governance but also has a direct impact on increasing productivity, expanding markets, and strengthening the community's economy sustainably through the development of the MSME sector.

### **Discussion**

Increasing digital-based financial management capacity has had a positive impact on changing business management behavior among MSMEs. Prior to the program's implementation, most businesses lacked a structured financial recording system, making it difficult to accurately monitor cash flow and profits. After training and mentoring, MSMEs began implementing digital application-based transaction recording, which helped them understand their business's financial condition more systematically. This finding aligns with research showing that increased financial literacy and the use of digital technology can improve the quality of small business management and enhance business decision-making (Lusardi & Mitchell, 2014).

Furthermore, the application of digital technology in business financial management has been shown to increase MSME operational efficiency. The use of financial recording applications allows businesses to monitor expenses, set product prices more rationally, and plan business development based on available data. This demonstrates that business digitalization not only accelerates administrative processes but also enhances businesses' ability to conduct data-driven strategic planning. The OECD (2021) confirms that digital adoption in MSMEs can increase business productivity while strengthening small business competitiveness in an increasingly competitive market.

The mentoring program also resulted in significant changes in financial management practices, particularly in the separation of personal and business finances. Before the program, many business owners mixed business finances with household expenses, making it difficult to determine true business profits. After receiving education and mentoring, business owners began to separate business and personal cash flow, resulting in improved financial control and the ability to plan business investments. This finding aligns with a World Bank report (2020), which states that sound financial management is a key factor in improving MSME sustainability and access to formal financing.

The subsequent discussion shows that improving digital financial management capacity also increases MSME owners' readiness to utilize digital platforms to expand their markets. Business owners become more confident in marketing products through online platforms because they have better control over production costs and business profits. This demonstrates that integrating financial management with digital marketing strategies can increase business competitiveness amidst changing consumer behavior, which is increasingly shifting toward digital transactions (OECD, 2021). Overall, the research findings confirm

that improving digital-based financial management capacity is an effective strategy for supporting MSME sustainability and strengthening the community economy. The mentoring program implemented can improve business actors' abilities to manage their businesses more professionally, efficiently, and adapt to technological developments. Therefore, similar programs need to be developed sustainably through collaboration between universities, the government, and other stakeholders to ensure equitable and sustainable digital transformation of MSMEs (World Bank, 2020).

### **Conclusion**

The conclusion of this study indicates that a digital-based MSME financial management capacity building program can improve the understanding and skills of business owners in managing their finances more systematically and professionally. The training and mentoring provided encourage MSME owners to implement routine transaction recording, separate business and personal finances, and utilize digital financial applications to prepare simple financial reports. These changes have a positive impact on improving cash flow control, business management efficiency, and the ability of business owners to make business decisions based on more accurate financial data.

Furthermore, the implementation of digital-based financial management also contributes to increased business competitiveness and strengthening the community economy by enhancing the sustainability of small businesses. The ability of MSME owners to utilize digital technology not only improves business governance but also opens up opportunities for market expansion and increased productivity. Therefore, similar mentoring programs need to be implemented sustainably and with broader coverage so that digital transformation in the MSME sector can be implemented evenly and have a real impact on improving the economic well-being of the community.

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