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Digital finance and the effectiveness of internal controls as well as their impact on the performance of UMKM in the city of Palopo

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Abstract

The aim of this research is to know the impact of digital finance and the effectiveness of internal controls in terms of UMKM performance. UMKM plays a significant role in creating jobs, reducing poverty, and boosting economic growth. The type of research used in this research is quantitative research, this research uses primary data. This study uses double linear regression. The population of this research is employees who work at the UMKM city of Palopo who use digital payment tools and the enterprise is still micro, small and medium scale. The total sample in this study is 79 respondents consisting of 1200 UMKM. The sample determination method used in this research is random sampling. Research results show that digital finance and the effectiveness of internal controls influence the performance of UMKM both partially and simultaneously.

Keywords: Digital finance, internal control efficiency, UMKM performance

1. Introduction

UMKM is the focus of the Indonesian economy, not only because of its distribution throughout the territory of Indonesia, but also because of the central position due to the large workforce in it. The number of UMKMs in Indonesia also has a significant contribution to economic growth, but in its development UMKM faces various problems such as limited labour capital, low capacity of HRM (Human Resource) and minimum mastery of science and technology [1] They can also be a source of innovation and competitiveness for a country. Good financial management is a key factor in the success of micro, small and medium-sized enterprises (UMKM). UMKM often has limited resources, so efficient financial management is crucial. Digitalization for every business nowadays is an urgent necessity[2]

The condition of the creative economy in the city itself can be seen from the opportunity of empowerment over time has not shown the great hope in such an effort to support the growth of a fair economic system that resulted in the UMKM based on creative economy has not given a specific positive pattern to the city of palopo known by the general public both inside and outside the region.

The performance of UMKM is used as an objective measurement medium to describe the effectiveness of the use of assets in operations to increase the profitability of business development[3], the achievement of sales targets, the increase in assets, andining the stability of the business [3]. It aims to and implement strategies, i.e. to obtain synergies between the various functions and existing business units.In order to be a strong, dynamic and competitive industry, the industry must increase information acquisition so that its products meet the needs of its customers.[3]. According to research carried out by [4] there are several factors that influence umkm among them: (1) Sales growth, (2) Capital growth, (3) Labour growth, (4) Market growth, (5) Capital growth.

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Previous research conducted by [7] said that the internal controls implemented by UMKM in Bandung City are still fairly good and not effective. The reason is the very smooth organizational structure and the lack of job descriptions, as well as cost and benefit analysis that tends to not support the implementation of internal controls that have not been maximized by UMKM in Bandung City, namely investment and sales. This is because UMKM perpetrators tend to consider the use of safe deposit boxes still considered inefficient as well as the absence of functions or internal parts of the company that focus on administrative related matters.

Unlike previous research, this study allows the author to know whether the internal controls applied by UMKM in the City of Palopo are already effective or vice versa. In addition to internal controls, the author has also discovered the latest issue of digital integrity that may have influenced the performance of UMKM in the city of Palopo, as the author finds that only a few previous researchers have investigated the digital integration to UMKM performance. Furthermore, previous research may be limited by the limitations of available technology such as today. For example, previously conducted research may not have access to digital technology or data analysis available today. Therefore, current research may have a greater opportunity to generate new findings due to the availability of more advanced technologies, in this case digital payment tools. The aim of this study is to find out the impact of digital integrity on UMKM performance and to know the impact on the effectiveness of internal controls in terms of the performance of UMKM.

2. Methodology

The type of research used in this research is quantitative research. The population of this research is employees who work at the UMKM city of Palopo who use digital payment tools and the enterprise is still micro, small and medium scale. Random sampling is a method of taking random samples without considering the layers in the population. [8] The total sample in this study is 79 respondents consisting of 1200 UMKM. Data collection using primary data carried out through surveys using a 1-5 point likert scale questionnaire. In conducting the test, this study used double linear regression. The study uses the application SPSS 25 (Statistical Program for Social Sciences) for the examination of validity and feasibility test measurement models and model validity tests. (uji T, uji F dan koefisien determinasi).

3. Result and Discussion

Results and discussion can be presented as a unified unit containing research findings and their explanations.

3.1. Uji regresi linear berganda

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig
		B	Std. Error	Beta		
1	(Constant)	6.810	3.002		2.268	0.026
	Keuangan Digital	0.530	0.125	0.458	4.222	0.000
	Efektifitas Pengendalian Internal	0.255	0.118	0.233	2.151	0.035

Source: SPSS Data Processing Results 25

Based on the results of the test table above, obtain the regression equation Y= 6,810 + 0,530 + 0,255. Based upon the equation such regression can be interpreted as follows.

1) The constant value indicates that if all independent variables of digital efficiency and internal control effectiveness are zero, then UMKM performance is 6,810.
2) Nilai koefisien variabel keuagan digital sebesar 0,530 (positif) pada tingkat signifikan 0,000 < 0,05 yang baearti apabila keuangan digital meningkat maka kinerja UMKM akan meningkat. Artinya keuangan digital berpengaruh positif terhadap kinerja UMKM.
3) The value of the variable coefficient of internal control effectiveness is 0.255 (positive) at a significant level of 0.035 < 0.05 which means that when the effectivity of internal controlling increases then the performance of UMKM will increase.

Hasil Uji Parsial (Uji T)

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig
		B	Std. Error	Beta		
1	(Constant)	6.810	3.002		2.268	.026
	Keuangan Digital	.530	.125	.458	4.222	.000
	Efektifitas	.255	.118	.233	2.151	.035

	Pengendalian Internal					

. Source: SPSS 25 Data Management Results

Through the statistical t test consisting of digital finance and the effectiveness of internal controls, it is possible to determine in part its impact on the performance of UMKM. The above t test table shows the t count result for the digital financial variable of 4,222 which is greater than the t value of the table (4,222 > 1,992), the significant value of 0,000 is smaller than the significant level of 0.05. Therefore, digital efficiency has a significant positive impact on UMKM performance.

Hasil Uji Simultan (Uji F)

ANOVA[a]						
Model		Sum of Squares	Df	Mean Square	F	Sig
1	Regression	169.439	2	84.719	23.586	0.000[b]
	Residual	272.991	76	3.592		
	Total	442.430	78			

Source: SPSS 25 Data Management Results

The F test result on the calculation of 23,586 F calculations is greater than the Ftable of 3,117 with a significant value of 0,000 < 0,05. These results indicate that digital finance, the effectiveness of internal controls simultaneously influence the performance of UMKM (Y).

Uji Koefisien Determinasi (R^2)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.619[a]	.383	.367	1.89526

Based on the table above shows that the adjusted square R square value is 0.383. So it can be understood that the digital efficiency variable and the effectiveness of internal control can explain the audit quality variable of 38.3%, while 61.7% is influenced by other variables outside the research.

3.2. Discussion

The impact of digital finance on UMKM performance

3.2.1. The impact of digital finance on UMKM performance

This is in line with the research carried out by [9] that UMKMs using digital finance expect their to grow because with the use of digital payment tools will make it easier to negotiate with consumers. The same findings were submitted [3] that the use of digital finance can improve UMKM's financial and non-financial performance. Financial performance is meant to be increased turnover while improved non-Finance performance is linked to improved services, quality of products and increased production targets. This is in contrast to the survey conducted by [10] that the results of his research showed the indirect influence of financial technology on UMKM performance through financial inclusion because

UMKM actors who have knowledge and can use good financial technology features are still few. It is in line with the research carried .[11] that the minimum knowledge and ability to utilize technology is one of the obstacles faced by UMKM perpetrators, so the use of digital financial is not maximum. In addition, the predominant entrepreneurs use cash payment transactions as opposed to fintech.

This study also supports the capacity building theory which explains that in order to the desired goals and performance, a person or group must be able to improve skills. One of the skills that must be possessed by UMKM perpetrators is the knowledge about digital finance because with the knowledge and application of digital finance to the business that is run will promote improved performance of either or not.

Fintech provides great opportunities for UMKM to improve operational efficiency, market expansion, better financial management, and enhanced transaction security. So when fintech is used carefully and to the maximum, then UMKM can improve financial performance well and can sustainable growth. Internal Control Effectiveness Against UMKM Performance

3.2.2. Internal control effectiveness against UMKM performance

The results of the variable hypothesis test of the effectiveness of internal control have a positive impact on the performance of UMKM. This is in line with the research conducted by [12] the better the internal control is carried out, the better is the result of the work that can be achieved by individuals or a group of people in the organization, where the work accomplished must be in accordance with the respective authority and responsibility, as well as done legally, according to the law, and also following the applicable moral and ethical standards. So the effort to the organization's goals will run well, without breaking the rules. It is in contrast to the research conducted [7] that the application of internal controls carried out by the perpetrators of UMKM is not maximized due to very simple organizational structure and flawed job descriptions, as well as cost and benefit analysis that tends to support the implementation of full internal control. In addition, there are several subcomponents of internal control that are not fully implemented by UMKM, namely investment and sales. This study also supports the capacity-building theory, which explains efforts to enhance the ability of individuals and groups to their goals more effectively and efficiently, so that UMKM actors should improve the implementation of effective internal controls, thereby improving their performance, reducing risks, and increasing the confidence of stakeholders.

4. Conclusion

Based on the above analysis, it can be concluded that (1) digital finance has a significant positive impact on the performance of UMKM (2) the effectiveness of internal control has an significant positive effect on UMKM performance. This marks the first and second accepted hypotheses.

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