

THE ROLE OF COMPETENCIES, FINANCIAL PLANNING, AND ACCESS TO FINANCE IN EXPLAINING SMEs FINANCIAL INNOVATION

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Abstract

Finance was a crucial aspect for the survival of SMEs. This study explored the factors that can influence financial innovation. Data was collected from the results of distributing questionnaires to 285 SMEs using a door-to-door approach and filling assistance. Sampling was based on the proportion of small and medium-sized industries. The data were tested with a series of statistical tests to obtain a suitable regression result. These results indicated that financial innovation was influenced by the owner or manager's entrepreneurial competence. Meanwhile, access to finance and financial planning did not affect financial innovation. Additional funds from outside the company were deemed necessary when the owner or manager of SMEs applies their maximum competence for business growth and performance. Therefore, it forced SMEs to be smart in exploring financial sources. SMEs tend to use their finance access to finance their business operations rather than making financial innovations. SMEs did not think about exploring their finances anymore because they felt they had enough loans obtained from one institution. Even though the knowledge of SME owner or manager financial planning was quite good; they preferred not to make financial planning and let the cash flow normally.

Keywords: Competencies, financial innovation, access to finance, financial planning.

Introduction

The importance of SMEs in economic evolution is undoubtedly. Poverty alleviation and employment of labor can be handled more or less because of the existence of SMEs. The performance of the SMEs sector is an important concern for economic stability. However, currently another concern that is more important is how SMEs can survive in the midst of global competition and technological sophistication. SMEs are forced to have the courage to compete with world products that may be more flexible and up-to-date with the times. The complexity of financial products and services requires entrepreneurs to master the financial concepts of companies and financial institutions in order to avoid fraud. However, SMEs still experience various difficulties in boosting growth, particularly the problem of financing (Bottazzi, Secchi, & Tamagni, 2014; Cao & Leung, 2016).

SMEs experience many challenges that prevent them from growing and being innovative. McDermott and Prajogo (2012) divides innovation into two groups. They are exploitation and exploration of innovation. Basically, financial innovation occurs because of the exploitation and exploration of one's knowledge and abilities. The level of knowledge and ability of a person can be measured from the level of financial literacy.

The level of financial literacy of SMEs is still low, that only 6.7% of credit customers of Rural Banks (BPR) in Central Java are well-literate (Ismanto *et al.*, 2019). Meanwhile, SMEs must conceptualize financial challenges to increase the provision of corporate funds.

Diversely, the absorption of SME loans to conventional financing nationally is still low. Statistical data recorded by the Financial Services Authority (OJK) as of October 2019, shows that the absorption rate of SME loans is 72,949 billion rupiah or 15.58% of total lending. In detail, 20,244 billion by small businesses and 52,705 billion by medium businesses. This figure shows that SMEs in Indonesia have difficulty accessing credit at conventional banks. This condition is also felt by SMEs in Jepara, based on observations made by researchers, that there is one big problem that SMEs owners complain about. The problem is financing, while they do not carry out financial innovations, such as accessing financing other than banks. This behavior needs to be analyzed, what factors underlie SMEs not to make financial innovations.

Innovative ways can be applied by SMEs for the progress and growth of the company. One of the SME financial innovations is to increase the provision of financing through online financing, which is commonly called crowdfunding or crowdsourcing (Hemer, 2011). SMEs can more easily access external finance

through financial sources other than banking. Eniola and Entebang (2015) state that crowdfunding which serves as a source of financing has a positive impact on the performance of SMEs. Exploiting SME financial innovations through crowdfunding can provide sufficient company funds to encourage more prospective SME performance. It is known that financial innovations can be carried out by banks to improve credit assessment accuracy and reduce credit risk evaluation errors (Li, Niskanen, Kolehmainen, & Niskanen, 2016). This financial innovation aims to minimize transaction and marketing costs, overcome the problem of information asymmetry, respond to taxes, and take advantage of technological developments (Akkaya, 2019).

Every small and medium business has a different way of surviving with the potential resources owned. Resource theory states that company resources must be valuable, scarce, cannot be replicated, and have no substitute for competitive advantage (Kabue & Kilika, 2016). However, the competence of SMEs is needed to improve company performance (Veliu & Manxhari, 2017) and ensure the success of SMEs (Tehseen & Ramayah, 2015). Vila, Pérez, and Coll-Serrano (2014) observe innovative behavior that occurs in the workplace. The results show that competence is needed by innovators in the workplace. The competencies are such as the ability to see and take advantage of opportunities, the ability to identify products, the ability to negotiate, and other abilities that drive company performance (Man, Lau, & Snape, 2008). Those competencies can be applied to business progress by making new breakthroughs in the financial sector.

The innovation process does not then occur spontaneously, but there are several stages that must be passed. One of the most important stages and the basis for successful innovation is planning. Alosani, Yusoff, and Al-Dhaafri (2020) argue that planning and innovation are important factors that can affect organizational performance and will contribute to viable new ideas. Even planning for innovation requires greater attention and flexibility (Hunter, Cassidy, & Ligon, 2012). However, the intensity of SME financial planning needs to be tested whether it affects the intensity of SME financial innovation. Innovation is useful for creating movement forward and for avoiding saturated opportunities. This innovation activity must be supported by the availability of funds. Dunk (2011) argues that optimizing budget planning to facilitate product innovation can improve company performance. Often internal funding is not sufficient to meet the needs of SMEs to grow. Therefore, easy access to external finance will encourage SMEs to make financial innovations.

Meanwhile, access to finance has been confirmed to be positively related to company growth (Ahiawodzi & Adade, 2012; Adomako, Danso, & Damoah, 2015; Fowowe, 2017). The ease of access to external finance will provide sufficient funds for operations and financial innovation activities.

Financial innovation is widely explored in financial companies and venture capitalists related to innovation in their financial products (Wonglimpiyarat, 2011; Zarutskie, 2013). While, financial innovation for small and medium enterprises has not been accessed by researchers. In addition, the effects of competence, intensity of financial planning, and access to finance on SME financial innovation have never been measured, whereas the motives of SMEs for their financial innovation need to be known. It is needed to explore whether SMEs can use the adequate competence to make new breakthroughs in the financial sector in order to meet the availability of business funds by making financial innovations such as taking financing from crowdfunder. Therefore, this study aims to determine and analyze the correlation between competence, financial planning, and access to finance on SME financial innovations in Jepara, Central Java, Indonesia.

Financial Innovation

According to the Great Dictionary of the Indonesian Language (KBBI), innovation is the renewal or inclusion or introduction of things that are different from existing ones. Innovation is an evolutionary adaptation of the previous product, then financial innovation is the creation of new financial products and systems (Tahir *et al.*, 2018). These financial innovations include moving funds across time and space, raising funds, managing risk, extracting information to support decision making, overcoming information asymmetry problems, and facilitating the sale or purchase of goods and services through payment systems.

Beck, Chen, Lin, and Song, (2016) proved in his research in 32 countries that financial innovation has a positive effect on economic and industrial growth. SMEs are indeed required to continue to innovate for competitive advantage. To achieve high innovation, the main obstacle faced by SMEs is access to credit (Angilella & Mazzù, 2015). Financial institutions can assist SME access to finance by reducing information asymmetry using an innovative SME credit rating model. Financial innovation generates alternative finance that can address SME financing challenges and play an important role in helping businesses finance growth. Of course, the success of financial innovation requires reliable knowledge and skills. Knowledge and abilities

are shown through entrepreneurial competence (Man *et al.*, 2008) and financial planning (Alosani *et al.*, 2020).

Competencies

The term competence has several meanings depending on the intended use. Competence is a reflection of individual skills and experiences as well as a unique way of doing things within the company (Man *et al.*, 2008). Competencies that drive SME competitiveness include opportunity competencies, organizing competencies, relationship competencies, commitment competencies, and conceptual competencies. Meanwhile, entrepreneurial competence has a positive impact on the performance of SMEs (Man *et al.*, 2008; Sánchez, 2012; Sarwoko, Surachman, Armanu, & Hadidjojo, 2013; Tehseen & Ramayah, 2015).

Tehseen and Ramayah (2015) also states that knowledge and competence are strategic assets for companies. Basic company knowledge includes competence in understanding customer needs and supplier capabilities. Thus, competence is used to ensure that innovation activities are directed to serve market needs and company goals (Racela, 2014). SMEs need to quickly reassess focus and direction, and learn to innovate. Sebestova and Rylkova (2011) state that innovative SME networks can be formed with a competency model. They are caring, competitiveness, communication, relationships, and culture. Individuals who show higher competence tend to be more likely to innovate in the workplace (Vila *et al.*, 2014). It means that the competence of SME owners has an impact on innovative behavior within the company. The competent SME owners tend to show more innovative behavior and are able to make new breakthroughs in the financial sector.

H₁: It is hypothesized that competencies have an effect on financial innovation.

Financial Planning

Financial planning and control systems are useful for helping business owners or managers to clarify activities that can provide benefits to the company. In order to achieve company goals, there are several important elements in financial planning that individuals must understand (Verstina, Akimova, Kisel, Chibisova, & Lukinov, 2015). These steps include tax management, debt management, insurance management, investment management, pension management, and asset planning. Therefore, SMEs must examine assets and liabilities, debt to capital ratios, and identify factors

that affect capital structure, financing, and financial flexibility by preparing financial planning (Bandopadhyaya, Callahan, & Shin, 2012).

Financial planning shows the planner's financial behavior (Chatterjee & Goetz, 2019). Those who have financial planning tend to be calmer and more orderly in conditioning their finances and are more motivated to explore financial innovations to meet sufficient funds. The important role of planning in innovation activities is indisputable in helping determine the feasibility of new ideas (Alosani *et al.*, 2020). The intensity of financial planning, even, requires greater attention and flexibility for the success of financial innovation (Hunter *et al.*, 2012). Financial innovation for SMEs can prevent them from narrow opportunities and stagnant performance. Optimizing the budget to facilitate innovation programs can improve company performance (Dunk, 2011). Thus, financial planning is an important aspect of SME financial innovation.

H₂: It is hypothesized that financial planning has an effect on financial innovation.

Access to Finance

The emphasis on access to finance lies in the existence of opportunities and the availability of financial conditions (Fowowe, 2017). Ikasari, Sumransat, Eko, and Kusumastuti (2016) measure access to finance from the supply and the demand side. Credit requests consist of reasons for not having a bank account, access barriers such as location, fees, processing time, document requirements, financial sources, financing preferences, reasons for not applying for credit, reasons for being rejected by financial institutions, and internal financial structures. Meanwhile, credit offers include appropriate products and services, reasons for refusal to provide financial provisions, processing time for credit registration, sharing of credit information, and collateral.

Access to finance is important for financial growth Ahiawodzi and Adade (2012) and business performance (Fowowe, 2017). Access to finance of debt and external equity is essential to support small companies' new plant and equipment investments (Harash, Altimimi, & Alsaadi, 2014). The availability of SME funds allows for greater innovation and competition to be encouraged. The ability of SMEs to access finance is important for funding business investment and ensuring the business grows well (Lee, Sameen, & Martin, 2013). Lack of finance can hamper cash flow and hinder the prospects for business viability and can also hinder growth and prevent SMEs from making new breakthroughs in finance.

H₃: It is hypothesized that access to finance has an effect on financial innovation.

Research Methods

This study tried to test the effect of competencies (CPT), financial planning (PLN) and access to finance (ACC) on financial innovation (INV). The research model is depicted in Figure 1. Financial innovation is the dependent variable of this study, while competencies, financial planning and access to finance are the independent variables. The study was conducted in August 2019–February 2020.

Data comes from primary data collected through distributing questionnaires to SME entrepreneurs in Jepara regency. A total of 285 respondents who want to answer the questionnaire well from 386 business units according to Slovin sampling calculation. The sample calculation is based on the latest data on the number of SMEs in Jepara from BPS Jepara (2019), which consists of 18,695 business units. The number of small and medium-sized industries in Jepara is this study population. Distribution of questionnaires used a proportional random sampling approach according to industry type. Then the data were analyzed with a quantitative approach using the SmartPLS analysis

tool including validity and reliability tests, descriptive analysis, and hypothesis testing. The variables were measured with a score scale of 1 to 6. 1 score is for "Strongly Disagree" and 6 scores is for "Strongly Agree" on positive questions. And 1 score is for "Strongly Agree" and 6 scores is for "Strongly Disagree" on the negative question. This scale is used to avoid the tendency of respondents to answer "neutral". Meanwhile, the answer shows an ambiguous response in social science research.

The measurement of financial innovation is adopted from Angilella and Mazzù (2015) and five questions represent the dependent variable. The access to finance variable is measured by the indicators used by *Ikasari et al.* (2016) which includes three indicators, namely accessibility, affordability and feasibility. There are seven questions in the questionnaire which represent this variable. Competencies are measured using 10 items from the measurement items *Man et al.* (2008). 10 questions related to competence were asked, including opportunity competence, relationship competence, innovative competence, and human resource competence and business strategy. While the measurement of financial planning variables refers to Boon, Yee, and Ting (2011). There are seven financial planning questions covering knowledge of financial

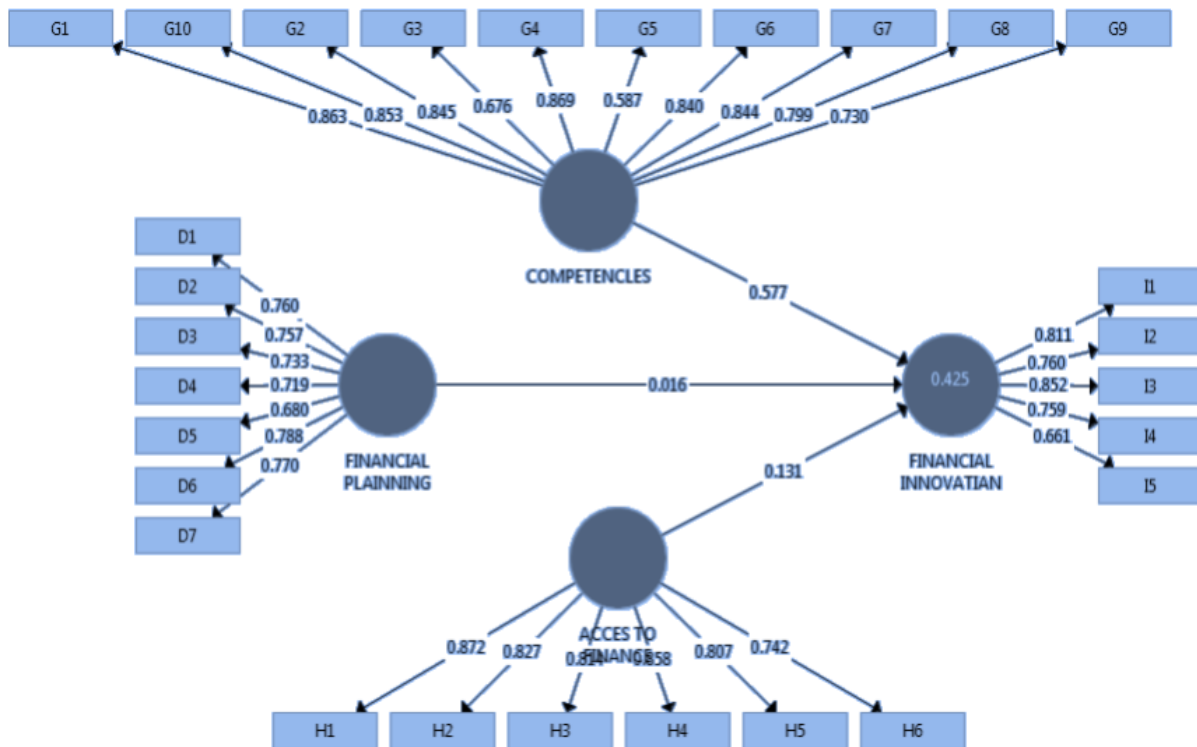


Figure 1. The conceptual research framework

planning concepts, setting financial goals and targets, making decisions, reviewing financial plans, planning insurance and investing.

Results and Discussion

This test is to check the validity of each variable measurement indicator, whether the indicator can explain the research instrument or not. The test results are detailed in Table 1, where all indicators of each research variable are valid, except for CPT5, which is the fifth indicator of the competencies variable (CPT) in which outer loading value is less than 0.6. In subsequent tests, one invalid indicator was eliminated to find a more accurate result.

Table 1
Result of Each Indicator Outer Loading

Item	ACC	CPT	INV	PLN
PLN1				0.760
PLN2				0.757
PLN3				0.733
PLN4				0.719
PLN5				0.680
PLN6				0.788
PLN7				0.770
CPT1		0.863		
CPT10		0.853		
CPT2		0.845		
CPT3		0.676		
CPT4		0.869		
CPT6		0.840		
CPT7		0.844		
CPT8		0.799		
CPT9		0.730		
ACC1	0.872			
ACC2	0.827			
ACC3	0.814			
ACC4	0.858			
ACC5	0.807			
ACC6	0.742			
INV1			0.811	
INV2			0.760	
INV3			0.852	
INV4			0.759	
INV5			0.661	

The validity was also analyzed in a discriminant manner to determine the cross-correlation of one variable with another. Based on Table 2, it can be seen that the research variables have a higher value than their correlation with other variables and the value is more than 0.7. The table also informs that the AVE value of each variable is more than 0.5 and the Cronbach's alpha value is more than 0.6. Thus, the construct of this research is valid and reliable.

It is shown in Table 3 that Adjusted *R* Square is 0.419, which means 41.9% of financial innovation variables are explained by access to finance, competencies, and financial planning. Meanwhile, the rest is explained by other variables outside this research model.

Table 2
Result of Discriminant Validity and Reliability

Item	ACC	CPT	INV	PLN
ACC	0.821			
CPT	0.395	0.796		
INV	0.369	0.639	0.771	
PLN	0.615	0.674	0.485	0.745
Cronbach's Alpha	0.904	0.933	0.830	0.866
Composite Reliability	0.925	0.945	0.879	0.897
Extracted Average Variance (AVE)	0.674	0.633	0.594	0.554

Table 3
Coefficient of Determination

	<i>R</i> Square	Adjusted <i>R</i> Square
Financial Innovation	0.425	0.419

Table 4 is the regression result which provides information on the magnitude of the influence of the independent variable on the dependent variable. The evaluation of this effect is seen from the comparison of the *t*-statistic with the *t*-table (> 1.96) by considering *p*-values < 0.05. The results showed that only the competencies variable had an effect on the financial innovation of SMEs. The effect is positive, where the high competencies of the owners or managers of SMEs can increase the possibility of SMEs to innovate to explore their financial sources. Meanwhile, the two other predictors, access to finance and financial planning, did not show any influence on financial innovation. Thus, the first alternative hypothesis (*H*₁) is accepted which states the influence of competencies on financial innovation. For the second alternative hypothesis (*H*₂) and third (*H*₃) are rejected. It means that access to finance and financial planning do not affect SMEs to do financial innovation.

Table 4
Result of Regression and Hypothesis Testing

	Original Sample	Standard Deviation	<i>t</i> -statistics	<i>p</i> -values
ACC → INV	0.131	0.086	1.525	0.128
CPT → INV	0.577	0.073	7.885	0.000
PLN → INV	0.016	0.082	0.195	0.845

Discussion

The empirical results that have been described in the previous section show the findings of the effect of the competencies on financial innovation and the value is positive. On the other hand, access to finance and financial planning did not show any influence on financial innovation. Increased competencies lead to an increase in the possibility of SMEs to innovate by exploring their financial resources. As argued by Sebestova and Rylkova (2011) in their paper, they state that innovative SME networks are formed because of the competency model. In fact, people tend to be more innovative in the workplace when they have higher competence (Vila *et al.*, 2014). The maximum application of the competencies possessed by the owner or manager of SMEs for growth and performance will allow SMEs to require larger funds. So that additional funds from outside the company are deemed necessary and ultimately force SMEs to be smart in exploring financial sources. In addition, Man *et al.* (2008) stated that entrepreneurial competence is the ability to see and take advantage of opportunities, the ability to identify products, the ability to negotiate, and other abilities that drive company performance. Taking advantage of opportunities and being observant about customer needs will help SMEs easily achieve their performance targets.

This paper does not deny that access to finance is important for the survival of SMEs, as the finding of Ahiawodzi and Adade (2012), Fowowe (2017), dan Lee *et al.* (2013). However, the findings of this study draw the conclusion that access to finance does not determine SMEs to make financial innovations. It can happen because SMEs tend to take advantage of their access to finance to finance their business operations. When SME owners or managers get funding from creditors, they do not think about exploring their finances anymore because they feel that they have enough of what they get or the SME owner or manager looks for other sources of finance after obtaining a loan from a financial institution because they have insufficient funds to cover company costs. However, working capital is used to finance all activities that occur within the SME. Loans obtained by SMEs will be distributed to business financing to increase their productivity and performance.

Financial innovation activities in this study are oriented towards the knowledge of SME owners or managers about financial products and their skills in using technology to explore financing. The results of this study did not find the effect of financial planning on financial innovation. This is because most of the

SMEs do not plan for their finances. They tend to just flow without estimating the income and costs of the business over a period of time. The SME owners or managers actually feel confused when they make plans, achieve financial targets in this period, so they choose not to plan. However, the knowledge of SMEs owners or managers about planning is quite good, they know what is meant by financial planning, insurance concepts, and the decision making process.

The financial behavior of SME owners in Jepara is described in this study result, they do not carry out financial planning and innovation, as well as poor management. This condition was exacerbated by the global pandemic outbreak in December 2019. The global pandemic affected the demand for their products and experienced financial distress. For this reason, SME financial innovation is important for SMEs, such as accessing online loans on platforms otorited by the OJK and being innovative in utilizing technology. To carry out financial innovation, it is important for SMEs to possess the components of entrepreneurial competence. With good entrepreneurial competence and financial innovation, SMEs will be able to overcome financial distress during the pandemic.

Conclusion and Implication

The future uncertainty requires SMEs to adapt quickly and be innovative. Their main challenge is how to survive from big companies. Finance is a crucial aspect for the survival of SMEs. This study explored the factors that could influence financial innovation. The results indicate that financial innovation is influenced by the owner or manager's entrepreneurial competence. However, the effect is not found in access to finance and financial planning. Increased competence leads to an increase in the possibility of SMEs to innovate by exploring their financial sources. The ability of the owner or manager of SMEs to take advantage of opportunities and to be sensitive to customer needs will help them to be more innovative, forcing SMEs to be smart in exploring financial sources.

This study is limited to three predictors of financial innovation. Future research can further explore the factors that can determine SME financial innovation activities by expanding the scope of research to a national or even international scale. For SMEs management, it is important to know that entrepreneurial competence can help owners or managers achieve business success. This research also contributes to literacy in finance and entrepreneurship, especially about entrepreneurial competence and financial innovation. This article is not without flaws. Several obstacles in the field are the difficulty in meeting the owner or manager of the

SMEs and the validity of filling out the questionnaire. But that deficiency does not reduce the quality of the results of this study. Future research can evaluate this constraint by trying other data collection methods.

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