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# TESTING MODEL OF FINANCIAL MANAGEMENT ABILITY OF SMALL AND MEDIUM ENTERPRISES (SMES)

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## ABSTRACT

This research aims to know the effect of financial literacy directly or indirectly through the financial management of SMEs in Medan city by financial inclusion. The research uses a quantitative method to associative approach with the data technic analysis using path analysis. Data were compiled through questionnaires, interviews, and documentation from a sample of 205 SMEs. The result of the research concludes that financial literacy affects financial inclusion, financial inclusion affects financial management ability, financial literacy affects the financial management ability positively and significantly. Financial literacy also affects financial management on SMEs in Medan city directly or indirectly. The limitation of this study is the lack of empirical research on SMEs in Medan city. This research implies that SMEs in maintaining and developing business competition in the future.

**KEYWORDS:** Financial Inclusion; Financial Literacy; Financial Management Ability.

## INTRODUCTION

Small and Medium Enterprises (SMEs) generally give an excessively big potential in Economic development in a country. SMEs are one of the pillars and the Economic foundation of the country which can contribute to increasing of income society from the bottom and the middle class even Gross Domestic Product (GDP) through the optimization of income from the tax sector. The existence of SMEs is as the strategic partner in the activity of the Economic country can contribute, it is not only as a branch of the enterprise but also as a private enterprise or group of people. The SMEs is a business activity that is engaged in many sectors of business and served the public in the interests and needs directly. Based on the data of the State Minister for Cooperatives Small and Medium Enterprises of Republic of Indonesia, the total of SMEs in 2018 has reached 64.194.057 units, in details of Micro Enterprise (ME) was 63.350.222 units, Small Enterprise (SE) was 783.132 units, and Middle Enterprise (ME) was 60.702 (Depkop, 2019) with the contribution of SMEs to GDP national was 53,32% (BPS, 2019).

The majority of SMEs in Indonesia is not the business of the legal law and have the limit of operational access. Then it always gets the problems in getting the venture capital from the financial organization, especially banking. This condition absolutely causes the SMEs to get the problem in developing their business activity in the short or long period. The facing of the problem of SMEs nowadays is caused by the venture capital limit, information technology, market, and uncertainty of business legality (Hartono & Hartono, 2014), the limitation of human resource quality, the weak business network, and the ability of market penetration (Hafsah, 2004), managerial skills and a low of understanding of financial management, the raw material difficulty, a less conducive business climate (Sunariani, et.al., 2017).

Especially with the availability of business capital, SMEs are always supported by the policy and the rule that can give the opportunity and the facilities in getting the capital with the financing and the business development from the financial organization. The problem is caused by the ability of self-assessment of SMEs that manages the low of financial. Whereas the business orientation of SMEs has only got the profit, next it is used to consumptive activity in the short period facilities. Despite the skill of financial management is done professionally that is the important factor in the progression and the achievement of SMEs. Then the business of SMEs should have an understanding of literacy and financial inclusion.

The important thing of financial literacy for SMEs base on Bhushan & Medury (2013) says that every person is able to make consideration and decision effectively in doing financial management because it indirectly can affect someone in the way of thinking about the financial condition, and take the strategic decision for business owners about their financial conditions to do the management well (Anggraeni, 2015). Meanwhile, the connection of financial inclusion is so that the people get the financial service easily without any obstacles. So the strategy of national financial inclusion of Bank Indonesia says that financial inclusion is the human right for everyone to have access and full of service from the financial organization on time, comfort, informative, and affordability with the full of respect human dignity and standards. Sarman (2012) emphasizes that financial inclusion is the process of easy access, availability, and the function of the formal financial system for all doer economics.

In 2019 the Financial Services Authority (OJK) has done the Financial National Literacy Survey (SNLIK). The result of the survey finds that the index of financial literacy (financial understanding) of the people including the doer of SMEs is very low around 38,03%, while financial inclusion (a product of financial service) is 76,19% (OJK, 2019). The low of literacy financial degree base on Chen & Valpe (1998), whereas literacy financial degree in the category is the high relative if the score is more than 80%; the middle of literacy financial degree (medium) the score is between 60% - 79%; while the low of literacy financial degree if the score is low that 60%. So that, literacy availability and financial inclusion must be serious attention for the doer of SMEs that is to the business activity gives a positive effect to develop the business in the short and long period.

Knowledge through literacy and financial inclusion in SMEs is still not optimal in increasing the ability of SMEs to carry out business activities effectively and efficiently. Therefore, other knowledge is needed, one of which is about financial management procedures. So that the collaboration between financial literacy, financial inclusion, and financial management is expected to have implications for SMEs in maintaining and developing business competition in the future.

Base on the legislation of Republic Indonesia No. 2 the Year 2018, there are 3 classifications of SMEs, namely micro-enterprise, small enterprise, and middle enterprise. The ownership form of micro, small, and middle enterprise is divided into 3 parts, namely family, corporate, and family and corporate or it is named blockhole system. SMEs strategy and its activity is the determinants of ownership form. Therefore, the owner has the connection to the acceptance degree on the risk in the decision making – even the ownership form will be highly effective in incentive system and control on the operation of the business (Roida, *et.al.,* 2010). The business operational is run by the doer of SMEs should be supported by the skill of business financial arrangement with exploring the knowledge and understanding of financial literacy.

Financial literacy basically connects to the knowledge, competency, conviction (OJK, 2019), skill, and ability of a person is exploiting the capital resource (Krishna, *et.al.,* 2010) is to analyze, read, manage, and communicate the self-financial condition (Wiharno & Nurhayati, 2017) in order to use in increasing his life class (Lusardi& Mitchell, 2014) the way is to make a decision making of financial management effectively and quality of the achievement degree (Welly*, et.al.,* 2019).

Soetiono & Setiawan (2018) says that by financial literacy, the people or consumers who use the product of financial service do not only know and understand about financial service organization but also they are expected to be able doing the change of attitude and behavior in financial management, until the achievement financially because attitude and behavior will encourage someone to determine planning, goal decision, decision making and doing well the financial management.

Meanwhile, Putri & Rahyuda (2017) says that financial literacy is part of studying financial management and investment planning to make a decision daily more objective and wiser. On another hand, Bhushan & Medury (2013) says that financial literacy where the individual can make consideration and decision effectively connection with financial management. Sari (2015) says that financial literacy is a skill of an individual to know the financial generally, whereas the knowledge includes saving, investment, debt, insurance, and other parts of financial.

The purpose of financial literacy can give an effect of someone's change in the understanding of financial from less literate or not literate becomes well literate, a product financial service user increases (Roestanto, 2017); a quality of self-financial decision-making increases; the progress is better than financial management in the thing of attitude change and individual behavior (Ismanto, *et.al.,* 2019), someone indirectly can decide and use the organization, product and financial services a suitable with his need and his capacity (Rantelobo & Sir, 2019).

To achieve the aim of financial literacy needs to warn all aspects, namely: the aspect of how to get the money, money management, money savings or wealth, and money consumption (Irman, 2018). On other hand, Organization Economic Century Development (OECD, 2013) divides into four aspects namely; money and transaction aspect, financial planning and management, risk and profit, and financial landscape. In addition, it can evaluate the success of financial literacy can be seen from the attitude(Gutter, 2008), knowledge(Chen & Volpe, 1998; Huston, 2010), education (Sucuachi, 2013; Rapih, 2016).

The limited access is possessed by the people who are s SMEs to get financial service, as the factor of becoming SMEs is difficult to explode. Its effect is for the doer of SMEs will be difficult to increase the living standards, it is caused almost for the doer of SMEs has the capital and consumer market access which is extremely limited. Then the poverty of society is one of the limited public access (SMEs) in getting the loan from the financial organization which is used for the business capital activity. To get the solution of condition facing, the doer of SMEs is due to get the financial service better, it is needed to find the concrete steps and productive from all stockholder especially the government (BI, OJK, BUMN, and BUMD) and banking which are to give the understanding of the financial inclusion importance. According to Sanjaya (2014) says that financial inclusion fundamentally of the main purpose is a concrete form to reduce the poverty.

For this reason, generally, financial inclusion is the effort so that the people can get the financial service facility by minimalizing for all obstacles price or non-price. So, significantly it will give the benefit in increasing the people's living standards, especially for the territory and the geographic condition is difficult to reach (access) or the isolation area in getting formal financial service (OJK, 2019). Financial inclusion confirms a process where the poverty people access as a marginal group to all aspects of the financial service system (Sanjaya & Nursechafia, 2016) can be easy to follow up. To increase people's access to financial services, all the efforts are done by removing all aspects that can be obstacles price or non-price (Adriani & Wiksuana, 2018; Yanti, 2019).

Specifically, in the researcher's view, financial inclusion is the effort to do the changing of the people mindset, the businessman when to find the access of financial service, where is the profit becomes as the capital in increasing the living standards. In achieving the success of financial inclusion, it comes from the regulation (Nisa, *et.al.,* 2018), banking service (Sarma, 2012), accessibility, and usage.

The target orientation is achieved in financial management not only the limitation of how the money supply manages well but also the money supply can be functioned to give the profit maximally. So the financial report should be fulfilled comprehensively and accountably, one of the ways is to use an accountant principle because the accountant is a systematic process in resulting the financial information, it is used in deciding for the consumers (Sasongko, *et.al.,* 2019). By the principal accountant, the financial report will give the prediction about the business financial condition in the certain period to value the performance achievement so that is used to making decision and responsibility (Tanan & Dhamayanti, 2020).



The optimization of the financial report cannot be a part of how financial management is done effectively and efficiently so that it gives the effect of the performance achievement includes the connection about getting the capital, the management activity with all aspect of comprehensive (Kasmir, 2010) through the business. It connects to asset achievement, capital, and asset management are founded for some general purposes (Horne & Wachowicz, 2014).

There are important elements that should be warned in financial business management, it is venture capital, money supply management, and the business financial report. The venture capital elements consist of "venture capital resource" is self-capital or loan, and "venture capital type" is investment capital and working capital. On another hand, the money supply management element –is the amount that is used to run the business especially for venture capital, it should be separated from private money if it is used for private interests namely the fee that is not necessary to return. Furthermore, the business financial report element, is the entry, the profit/loss report (Tanan & Dhamayanti, 2020).

Fundamentally, the financial management function cannot be separated from the process of finding venture capital, it is allocated in the business development, to get the profit (Hartati, 2013). The profit acceptance from using venture capital through financial management is to concern four basic elements, namely planning, note, report, and control (Mada & Martini, 2019). Furthermore, evaluating the success of financial management can be determined by competency (Hanifa, *et.al.,* 2016), transparency and agency(Nurhadianto & Khamisah, 2020), and accountability (Nafidah & Anisa, 2017).

Financial literacy is a person's skills to apply their knowledge and expertise to achieve better financial behavior, so that knowledge, skills, and behavior become an interrelated unit in the concept of financial literacy (Lusardi & Mitchell, 2008). Terzi (2015) states that financial inclusion is also included in the financial literacy program, where the higher is the increase in financial inclusion will increase economic stability for a country. Several researchers have researched the effect of financial literacy on financial inclusion, including (Grohmann et al., 2015) shows the results that increasing financial literacy will have the greatest effect in countries with low levels of financial understanding. In the research (Mindra & Moya, 2017), it is suggested that financial literacy has a positive influence on financial inclusion with the results of the model shows that positive changes in skill levels, knowledge, and understanding, as well as basic financial concepts regarding service finance, are associated with increased inclusion in terms of access, use, and quality among individuals. From some of the explanations above, it can be concluded that the skills or level of individual or community understanding (financial literacy) is getting better about how they manage their finances, financial inclusion can run effectively according to the needs and economic conditions they face. From this explanation, the following hypothesis is formed:

***$H_1$*****:** *Financial literacy affects financial inclusion*

Accessing financial products and services easily, it will make it easier for business actors to run their business, such as saving money or business cash safely in the form of savings and carrying out the sale and purchase transactions via transfer at SNLIK OJK 2016, shows that Indonesian people, in general, are already used the product and banking services. Besides, the doers of SMEs who have access to financing also encourage them to do budget preparation properly because business evaluations are running according to target or not, giving profit or loss and developing or not a business can be seen in financial reports that are carried out periodically such as profit and loss reports which contain a summary of the company's revenue and expenses and a balance sheet that contains assets or assets, liabilities and business equity.



The previous studies include Nurhayati & Nurodin (2019), financial inclusion has a direct effect on the management of household personal finances by using indicators of access, quality, usage, welfare. Likewise, research by, Dai & Suryanto (2013) states that financial literacy has a positive effect on the financial management of Cipageran Cimahi dairy business owners, so that most business owners have already known the importance of financial literacy, but they have not implemented it in their business activities.

From some of the explanations above, it can be concluded that it is better than the individual or the community has easy access to financial products and services (financial inclusion), it will be easy for the community to run their business so that the doers of SMEs who have access to finance can prepare financial reports properly. From this explanation, the following hypothesis is formed:

***H₂:** Financial inclusion affects financial management*

Financial management is a company activity related to how to get funds, use funds, and manage assets in accordance with the overall goals of the company (Sumarsono, 2003). Based on the many experiences of the doers of SMEs, weak financial control is one of the main factors for the failure of a company (Wibowo, 2011). In detail, SMEs Financial Management consists of sources of business funds, financial reports, cash management, and budgeting (Andreas, 2011). The result of the research is conducted by Anggraeni (2015) shows that the result is that low levels of financial literacy affect business owners in managing business finances. Likewise, the research result of Ida dan Dwinta (2010), which state that financial knowledge influences a person in financial management behavior. Furthermore, the result of the research is conducted by Anggraeni (2015) indicates that the low level of financial literacy of SMEs owners affects their ability to manage finances. The result of the research is conducted by Rumbianingrum & Wijayangka (2018) state that financial literacy has a positive and significant effect on financial management at SMEs of the Fostered Members of the KSU Misykat DPU DT in Bandung Raya. Likewise, Putri & Lestari (2019) stated that financial literacy has a positive influence on the financial management of young workers in Jakarta. Increased financial literacy will improve financial management in SMEs (Widiyanti, 2016).

From some of the explanations above, it can be concluded that an individual or society's understanding of finance (financial literacy) is getting better, and then they should be in managing their finances effectively in accordance with the needs and economic conditions they face. From this explanation, the following hypothesis is formed:

***H₃:** Financial literacy affects financial management*

## METHOD

This research is used by the explanatory research approach, it purposes to explain the causal relationship between research variable and testing hypothesis (Nasution, et al., 2020). The associative approach is as quantitative research scope that is a foundation from all researches to describe the data of the research result because the positivism philosophy is the foundation from the quantitative research, it is used to explore the certain population or sample randomly, then the data is collected by the research instrument, next the data is analyzed by quantitative or statistic to test the hypothesis which has decided(Sugiyono, 2018). The associative approach is the approach to analyze the relationship between a dependent variable and an independent variable (Juliandi, *et.al.,* 2015). The descriptive approach where is the data or sample from the objective of the research will be described in the picture form or narration (sentence) can be explained the means and the means of data collected (Sugiyono, 2018).

The sample is taken from 205 doers of SMEs in Medan city to collaboration using cluster sampling approach base on the criteria namely type, period, and an average of the business profit degree. The data collection is done by questionnaire, interview, and documentation. The data analysis use path analysis with the concept of Structural Equation Modelling (SEM) is a form from econometric study development, through the collaboration between factor analysis and simultaneous equation modeling is used in the social study including psychology study and psychometry (Ghozali, 2013). The software analyzes the data using AMOS for version 21. This is because there are factors that affect each research variable. In the financial literacy research and financial inclusion is named as an exogenous variable (independent variable), financial management is as an endogenous variable (dependent variable). To arrange the model stage and the analysis of structures can be done by seven stages (Ghozali, 2011) namely: the first stage does the model development base on the theory; second stage and third stage arrange the structural and the diagram lane; the fourth stage chooses the type of matrix input and model of estimation which is recommended, the fifth stage identifies to the structural model; the sixth stage evaluates goodness of fit criteria and the seventh stage interprets and modifies the model.

## RESULTS AND DISCUSSION

Based on the data result analysis in the research, there were the findings, namely respondent characteristics, it showed that the women respondents dominated in this research it was around 56,59 % (116 people). The age aspect, it dominated the respondents in the age of > 25 years old that was 61,50 % (126 people). The education aspect dominated the educated respondents SMA/SMU/MA/SMK it was 44,40 % (91 people).

The validity test for every latent variable/construct, whereas the result of the data testing, could be seen through the loading factor. The indicators were from all variables, it was 11 instruments. The result of the data analysis was displayed in table 1:

**Table 1.** Result of Validity Test

| Variable | Instrument | Loading Factor | Note |
|---|---|---|---|
| **Financial Literacy** | X1 | 0,627 | Valid |
| | X2 | 0,718 | Valid |
| | X3 | 0,699 | Valid |
| **Financial Inclusion** | X4 | 0,759 | Valid |
| | X5 | 0,750 | Valid |
| | X6 | 0,684 | Valid |
| | X7 | 0,748 | Valid |
| **Financial Management** | Y1 | 0,708 | Valid |
| | Y2 | 0,658 | Valid |
| | Y3 | 0,633 | Valid |
| | Y4 | 0,714 | Valid |

Based on the instruments were used in the validity test concluded that all indicators in valid categories. Base on the theory (Ghozali, 2013), if loading factor > 0,50 the instrument was a valid category or the definition of the instrument was determined in the research could be used to evaluate each variable. Meanwhile, doing the reliability test could be done by using construct reliability and variance extracted. The result of data analysis was displayed in table 2:

| Variable | Cronbach' Alpha Score | Note |
|---|---|---|
| Financial Literacy | 0,886 | Reliable |
| Financial Inclusion | 0,924 | Reliable |
| Financial Management Ability | 0,849 | Reliable |

**Table 2.** Result of Reliability Test

As a result of the reliability test analysis, all the research variables in the category were reliable. Based on the theory (Ghozali, 2013), if the construct can be reliable, the score Cronbach's alpha will be > 0,6.

| Variable | Min | Max | skew | c.r. | kurtosis | c.r. |
|---|---|---|---|---|---|---|
| **X3** | 1,000 | 5,000 | 1,251 | 0,845 | ,816 | 0,885 |
| **X6** | 1,000 | 5,000 | 1,029 | -1,274 | 2,735 | 1,668 |
| **X4** | 1,000 | 5,000 | ,721 | 1,097 | 2,941 | 1,398 |
| **X5** | 1,000 | 5,000 | -1,141 | -,068 | 1,008 | 0,564 |
| **X7** | 2,000 | 5,000 | ,629 | 0,449 | 2,177 | 0,695 |
| **Y4** | 1,000 | 5,000 | ,930 | 0,575 | ,857 | 1,029 |
| **X3** | 1,000 | 5,000 | ,681 | 0,817 | -,508 | -1,797 |
| **X2** | 1,000 | 5,000 | -1,078 | -0,622 | ,879 | 1,107 |
| **X1** | 1,000 | 5,000 | -1,352 | -1,557 | 1,743 | 1,161 |
| **X2** | 1,000 | 5,000 | -1,491 | -0,541 | 1,686 | 0,960 |
| **X1** | 1,000 | 5,000 | -,646 | -1,569 | -,385 | -1,360 |
| **Multivariate** | | | | | 18,604 | 4,519 |

**Table 3.** Normality Test

In the data normality test, the test was used Critical Ratio (C.R) on Skewness and Kurtosis. If the C.R score was in the around crisis score ± 1,96 with a significant rate of 5 %, so the data was a normal category. The result of data analysis was displayed in table 3.

Table 3, showed that all data in the research distributed normally. It was based on all critical ratio (c.r.) scores including skewness and kurtosis score, it was around ± 1,96.

**Confirmatory of Financial Literacy Variable**

Analysis confirmatory to composite (single indicator) from financial literacy variable was displayed on:

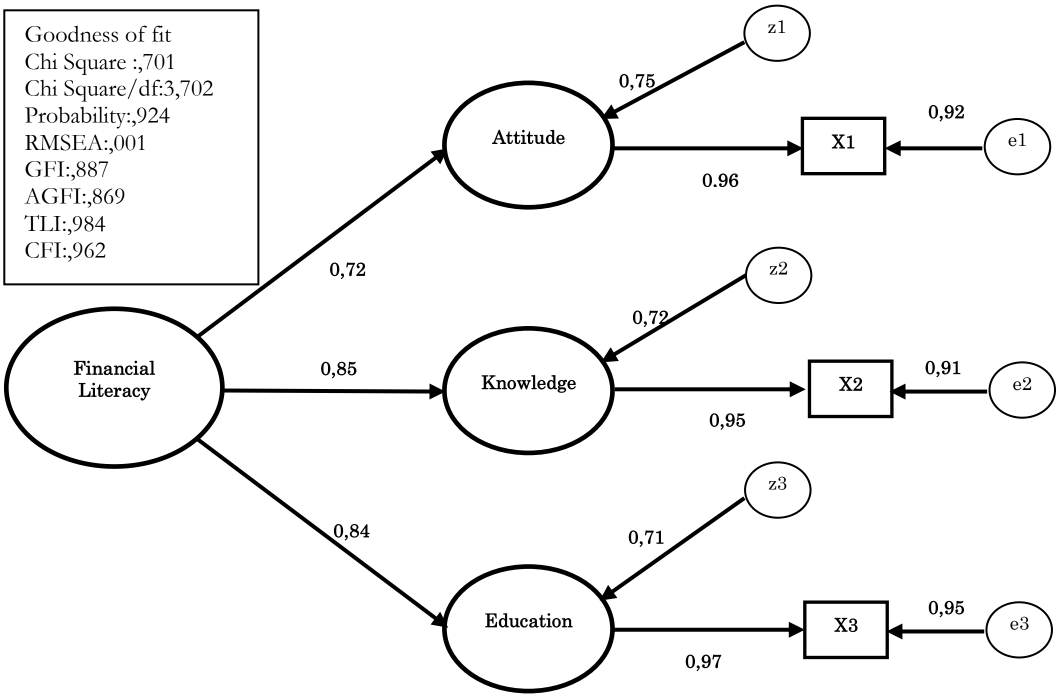


**Figure 1.** Confirmatory of Financial Literacy

Confirmatory analysis on the financial literacy variable was a composite indicator, it was done by Goodness-of-fit Index on table 4:

**Table 4.** Goodness-of-fit Indeks Financial Literacy variable

| Goodness-of-Fit Index | Cut-off Value | Result | Note |
|---|---|---|---|
| Chi-Square (df=5) | Minimum | 0,701 | Good |
| Probability | ≥ 0,05 | 0,924 | Good |
| RMSEA | ≤ 0,08 | 0,001 | Good |
| GFI | Close to 1 | 0,887 | Good |
| AGFI | Close to 1 | 0,869 | Good |
| CMIN/DF | ≤ 5,00 | 3,702 | Good |
| TLI | Close to 1 | 0,984 | Good |
| CFI | Close to 1 | 0,962 | Good |

Table 4 showed that all index aspects have fulfilled fit criteria, with the index score in the good category, there were the differences between matrix on covariance sample and population on financial inclusion variable. The outcome of the research analysis explains to examine financial literacy for SMEs in Medan city can be determinant from the attitude, knowledge, and education factors. This certainly has a positive impact on individuals in increased savings and retirement planning, more realistic assessments of financial knowledge by consumers, life skill and bargaining power, and financial efficiency (Ramsey in Refera, et al., 2016). The result of this study has been supported by various past researches (Widdowson and Hailwood, 2007; Gutter, 2008; Chen & Volpe, 1998; Huston, 2010; Sucuachi, 2013; Rapih, 2016).

### Confirmatory of Financial Inclusion Variable

Analysis confirmatory to composite (single indicator) from the financial inclusion variable was displayed on:

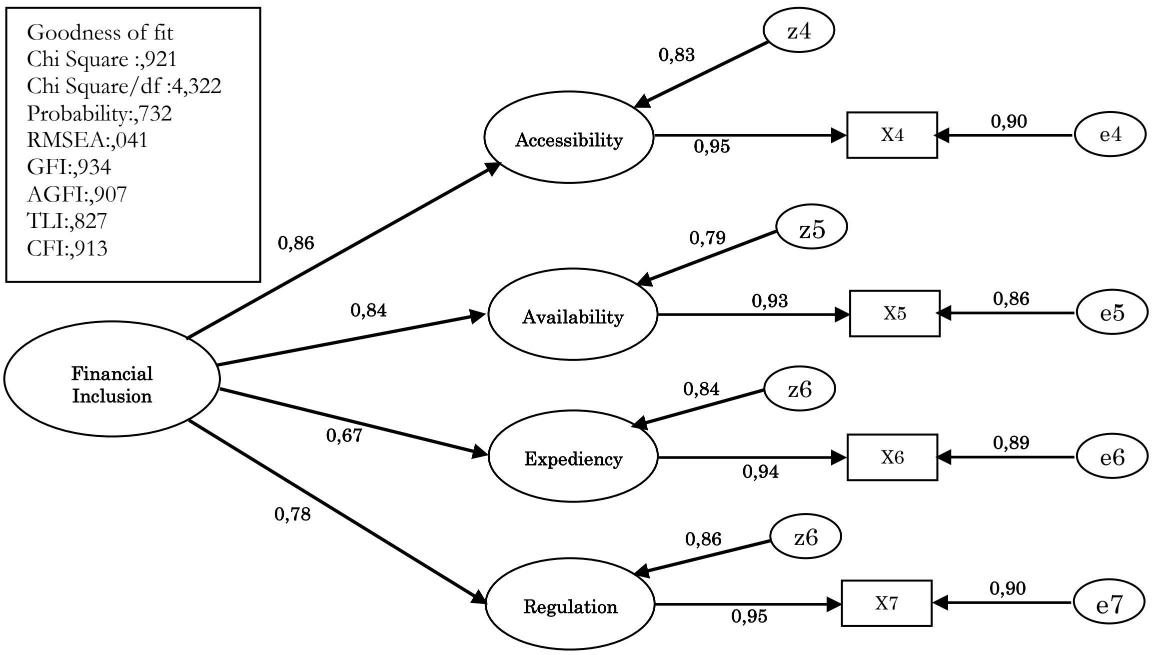


**Figure 2.** Confirmatory of Financial Inclusion Variable

Confirmatory analysis of the financial inclusion variable was a composite indicator, so it was done by Goodness-of-fit on table 5:

| Goodness-of-Fit Index | Cut-off Value | Result | Note |
|---|---|---|---|
| Chi-Square (df=5) | Minimum | 0,921 | Good |
| Probability | ≥ 0,05 | 0,732 | Good |
| RMSEA | ≤ 0,08 | 0,041 | Good |
| GFI | Close to 1 | 0,934 | Good |
| AGFI | Close to 1 | 0,907 | Good |
| CMIN/DF | ≤ 5,00 | 4,322 | Good |
| TLI | Close to 1 | 0,827 | Good |
| CFI | Close to 1 | 0,913 | Good |

**Table 5.** Goodness-of-fit Index Financial Inclusion Variable

Table 5 showed that all index scores have fulfilled fit criteria, with the index score in the good category, there were the differences between the matrix on covariance sample and the population on the financial inclusion variable. The implementation of inclusion financial for SMEs in Medan city is inseparable from the commitment of financial service managers in providing broad opportunities and access to obtain business capital loans without obstacles and constraints. The results of this study have shown that the success of financial inclusion is determined by the factor of policy, banking services, accessibility, availability, and usage. This is also supported by various past researches (Sarma and Pais, 2011; Terzi, 2015; Ibor, et al., 2017)

### Confirmatory of Financial Management Variable

Analysis confirmatory to composite (single indicator) from the financial management variable was displayed on:

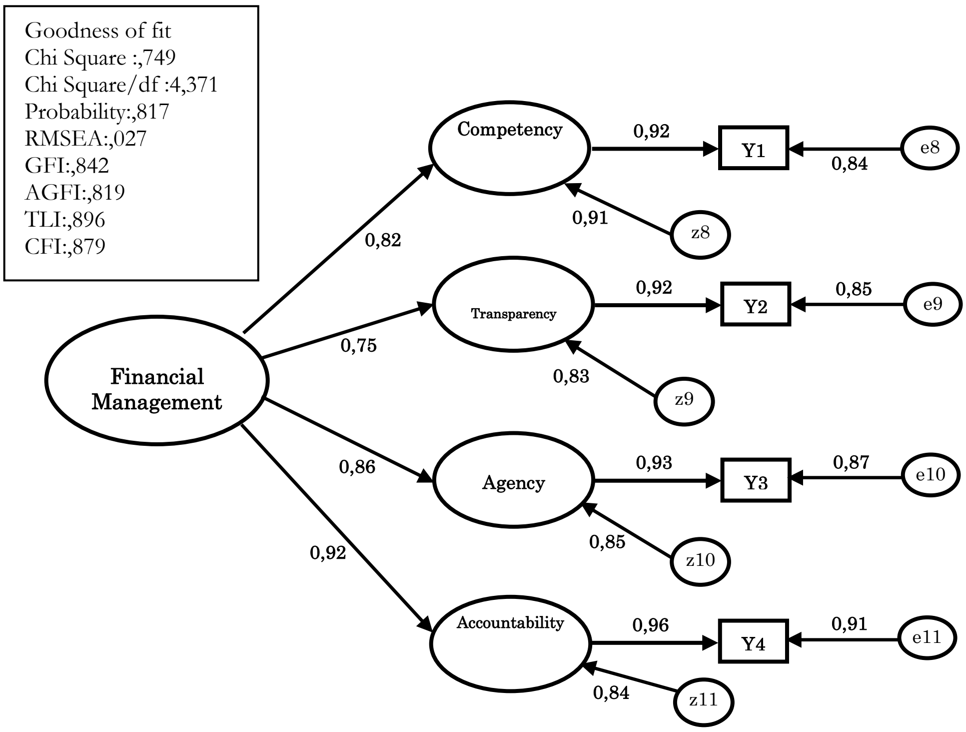


**Figure 3.** Confirmatory of Financial Management

In a confirmatory analysis on the financial inclusion, the variable was as a composite indicator, there was done by Goodness-of-fit Index on table 6:

**Table 6.** Goodness-of-fit Index Financial Management Variable

| Goodness-of-Fit Index | Cut-off Value | Result | Note |
|---|---|---|---|
| **Chi-Square (df=5)** | Minimum | 0,749 | Good |
| **Probability** | ≥ 0,05 | 0,817 | Good |
| **RMSEA** | ≤ 0,08 | 0,027 | Good |
| **GFI** | Close to 1 | 0,842 | Good |
| **AGFI** | Close to 1 | 0,819 | Good |
| **CMIN/DF** | ≤ 5,00 | 4,371 | Good |
| **TLI** | Close to 1 | 0,896 | Good |
| **CFI** | Close to 1 | 0,879 | Good |

Table 6 showed that all index aspects have fulfilled fit criteria, with the index score in the good category, there were the differences between matrix on covariance sample and population on financial inclusion variable. The application of accounting principles in financial management at SMEs in Medan City is an important factor in producing financial reports efficiently and effectively. Besides, the achievement of the financial performance of SMEs is a measure in decision making. The result of this study shows that the success in measuring financial management is related to competency, transparency and agency, and accountability factors. This finding is supported by various past researches (Jensen, 2004; Hanifa, *et.al.,* 2016; Nurhadianto & Khamisah, 2020 and Nafidah & Anisa, 2017).

**Full Model Analysis**

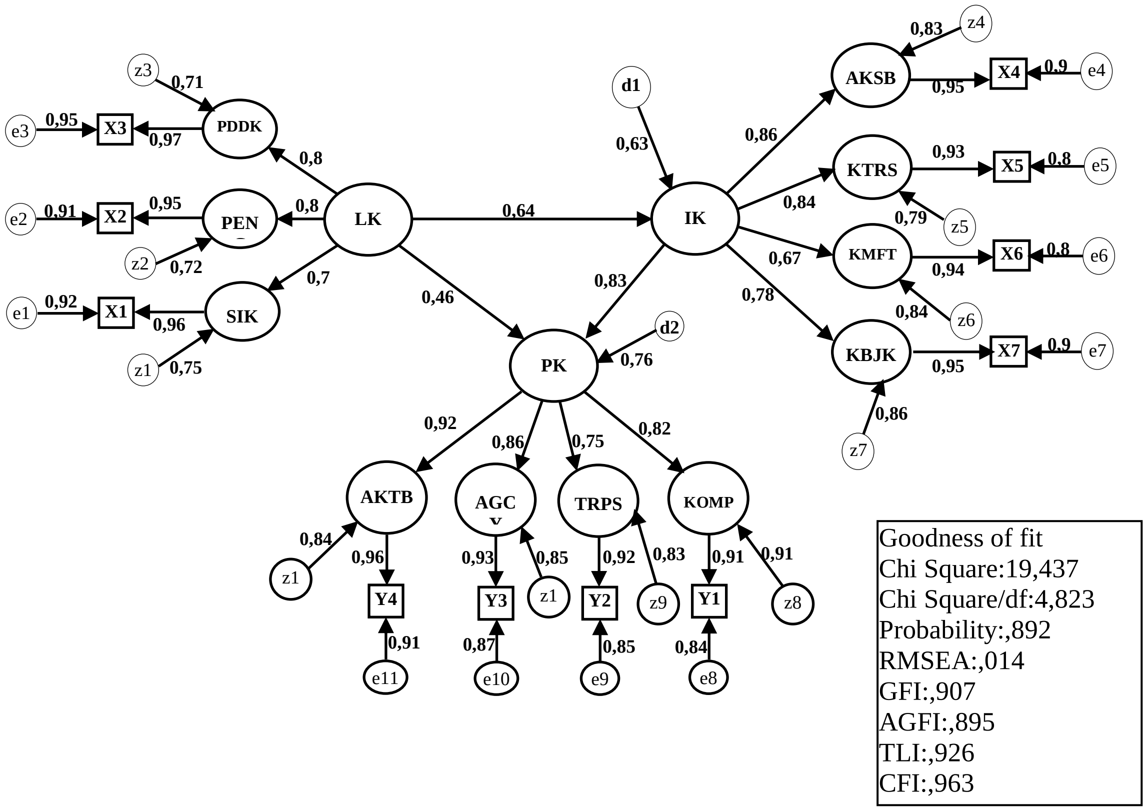


**Figure 4.** Full Model

In a full model analysis in the financial literacy variable, financial inclusion, and financial management are as a composite indicator, so that is done by Goodness-of-fit- Index on table 7:

| Goodness-of-Fit Indeks | Cut-off Value | Result | Note |
|---|---|---|---|
| Chi-Square (df=5) | Minimum | 19,437 | Good |
| Probability | ≥ 0,05 | 0,892 | Good |
| RMSEA | ≤ 0,08 | 0,014 | Good |
| GFI | Close to 1 | 0,907 | Good |
| AGFI | Close to 1 | 0,895 | Good |
| CMIN/DF | ≤ 5,00 | 4,823 | Good |
| TLI | Close to 1 | 0,926 | Good |
| CFI | Close to 1 | 0,963 | Good |

**Table 7.**
The goodness of fit Index Full Model

Table 7 showed that all index scores have fulfilled fit criteria, by the index score in the good category, so that there were no differences between a matrix in covariance sample and population in financial inclusion variable. The full model testing showed that literacy and financial inclusion that it was able to explain financial management skills around 0,706.

**Hypothesis Testing**

Hypothesis testing was done by score c.r. by regression weight. In the hypothesis was determined that it was accepted the hypothesis if the score of c.r.> crisis score on the significance rate 0,05 ($p< 0,05$), it was rejected the hypothesis vice versa. The result of data analysis has got the critical ratio score to Regression Weight and Standardized Regression Weights in the table 8.

The first hypothesis was about the effect of Financial Literacy (FL) to Financial Inclusion (FI) showed that CR score around 3,271 where CR ≥ 2,00 with the probability score around 0,000. The second hypothesis was about the effect of Financial Inclusion (FI) to Financial Management (FM) showed that CR score around 4,529 where CR ≥ 2,00 with the probability score around 0,001. The third hypothesis was about the effect of Financial Literacy (FL) to the Financial Management (FM) showed that CR score around 2,876 where CR ≥ 2,00 with the probability around 0,004.

| | | | Estimate | S.E. | C.R. | ***P*** |
|---|---|---|---|---|---|---|
| **IK** | **<---** | **LK** | ,637 | ,342 | 3,271 | ,000 |
| **PK** | **<---** | **IK** | ,826 | ,291 | 4,529 | ,001 |
| **PK** | **<---** | **LK** | ,458 | ,186 | 2,876 | ,004 |

**Table 8.**
Regression Weights

## Direct Effect Analysis, Indirect Standardizeddan Total Effect

The result of the analysis affected direct, indirect, and the total effect was shown in table 9:

**Table 9.** Direct Effect, Indirect Standardizeddan Total Effect

| | | | |
|---|---|---|---|
| *Directs Effects* | | | |
| | **LK** | **IK** | **PK** |
| **IK** | ,673 | ,000 | ,001 |
| **PK** | ,458 | ,826 | ,004 |
| *Indirects standardized* | | | |
| | **LK** | **IK** | **PK** |
| **IK** | ,000 | ,000 | ,001 |
| **PK** | ,556 | ,826 | ,004 |
| *Total Effects* | | | |
| | **LK** | **IK** | **PK** |
| **IK** | ,000 | ,000 | ,001 |
| **PK** | 1,229 | ,001 | ,004 |

The result of data analysis was about dirrect effect, indirect standardized, and total effect that can be explained that there was direct effect of the financial literacy to financial inclusion around 0,673; the direct effect of financial literacy to financial management around 0,458; the direct effect of financial inclusion to financial management around 0,826; the indirect effect of financial literacy to financial management to financial inclusion around 0,556 = (0,673 x 0,826); and the total effect was around 1,229 = (0,673 + 0,556).

Based on the finding research where it was explained that the contract score in the financial literacy variable, financial inclusion, and financial management showed that basically there was the effect of financial literacy to financial inclusion at SMEs in Medan city positively and significantly with $p< 0,05$ (0,000 < 0,05) or C.R > 2,00 (3,271 > 2,00). In addition, Rumbianingrum & Wijayangka (2018) say that financial literacy affects and significant to financial management at SMEs assisted members KSU Misykat DPU DT in Bandung Raya. Putri & Lestari (2019) explained that financial literacy gave a positive effect on young workers in financial management in Jakarta.

The financial inclusion affected to financial management at SMEs in Medan city positively and significantly with $p< 0,05$ (0,001 < 0,05) or C.R > 2,00 (4,529 > 2,00). The finding research had different, where Sohilauw (2018) explained that financial literacy affected to financial inclusion, the effect was 91,20 %. Meanwhile, the research of Natalia, *et.al.,* (2020) found that financial literacy didn't affect to financial inclusion to the doer of SMEs in Tangerang Selatan city.

Meanwhile, financial literacy affected to financial management to SMEs in Medan city positively and significantly with $p< 0,05$ (0,004 < 0,05) or C.R > 2,00 (2,876 > 2,00). In addition, Nurhayati & Nurodin (2019) explained that financial inclusion affected directly to self-household of the financial management by using access, quality, usage, welfare indicators. Dai & Suryanto (2013), financial literacy affected positively to financial management to the owners of milk cows CipageranCimahi, most of the owner has known the importance of financial literacy, but they applied in their business yet.

The connection of direct effect, indirect effect, and the total effect were explained. There was a direct effect of financial literacy to financial inclusion at SMEs in Medan city with a coefficient score of 0,673. There was a direct effect of financial literacy to financial management at SMEs in Medan city with a coefficient score of 0,458. There was a direct effect of financial inclusion to financial management at SMEs in Medan city with a coefficient score of 0,826. There was an indirect effect of financial literacy to financial management by financial inclusion at SMEs in Medan city with the coefficient score of 0,556. The total effect obtained the coefficient score of 1,229.

## CONCLUSION

Financial literacy is the effort in giving knowledge, skill, perception, and competency to all individuals who manage the finances effectively and efficiently. Financial inclusion is as the form from the understanding and the knowledge from the individual to the product of financial service in the financial system. Meanwhile, financial management competency is the form of implementation from the understanding and the knowledge of an individual in financial management professionally. The finding research showed that financial literacy affects to financial inclusion, financial inclusion affects to financial management skills, financial literacy affects to financial management ability positively and significantly. Financial literacy affects directly or indirectly to financial management to SMEs in Medan city. The limitation of the research only takes in Medan city as the object, the variables are used to affect the financial management skill limits only two variables (financial literacy and financial inclusion). It is purposed in the next research can be explored for another some variables which can be the basic issues in the effect of financial management competency of SMEs in Medan city, or all over in Indonesia, namely venture capital variable, money business management, and business financial management, etc. This research implies that SMEs in maintaining and developing business competition in the future.

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