

# **The Influence of Organizational Governance and Financial Literacy in Increasing the Productivity of MSMEs (Ulamm) at BUMN PT Permodalan Nasional Madani (PNM) Medan Branch**

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## **Abstract**

It is important to know whether these elements affect business progress. Therefore, testing several relevant variables is very important. This study will investigate how Organizational Governance and Financial Literacy Affect the Productivity of MSMEs (Ulamm) in the Medan Branch of BUMN PT Permodalan Nasional Madani (Pnm). Data collection was carried out quantitatively. The results of the study show that organizational governance and financial literacy have a positive and significant impact on the productivity of MSMEs at the State-Owned Enterprise PT Permodalan Nasional Madani (Pnm) Medan Branch. Therefore, to advance MSMEs, it is necessary to improve organizational governance and financial literacy .

**Keywords:** Organizational Governance, Financial Literacy, Productivity of MSMEs (Ulamm), PT Permodalan Nasional Madani

## **INTRODUCTION**

One of the components that contributes to increased productivity is organizational management. It is very important to incorporate governance principles into organizational activities because good and proper governance can improve the efficiency and performance of the company (Santosa et al., 2020). The application of the concept of governance in the company will have many advantages. In addition, this allows MSMEs to adopt the concept of governance. Thus, small and medium enterprises (MSMEs) will be able to conduct sustainable business. Research conducted by Sri Lestari et al. (2018), Mohd Sharif et al. (2018), Hanifah (2015), and Uchehara (2017) shows that the application of GCG principles in the MSME sector has occurred, and this will have an impact on company performance. So it can be said that it is necessary to apply the principles of good organizational governance in order to increase productivity and business sustainability .

In addition to organizational governance, financial literacy is also another factor that influences success in increasing MSME productivity. When MSME entrepreneurs obtain good financial literacy, they will gain many benefits, which will make them familiar with financial access. According to Hidajat et al. (2015), financial literacy programs can function as a cure for various diseases related to the financial crisis. According to previous research conducted by Aribawa (2016), if business actors in the MSME sector have sufficient financial literacy, the business and financial decisions made will drive gradual progress, increase the business's ability to

survive in the midst of a crisis, and ultimately ensure long-term sustainability. Chimucheka and Rungani stated the same thing . The same thing was stated by Chimucheka & Rungani (2011) that knowledge about finance also has an impact on the growth and sustainability of MSMEs. Likewise, Widiyanti (2016) in her research showed that financial literacy variables can influence MSME performance .

According to Hanif et al. (2019), corporate culture affects material and spiritual productivity. Cultural values are an important component in achieving corporate productivity targets, according to Anthony and Govindarajan (2007). The need for labor increases as the business develops. Basically, achieving corporate goals by involving other people is called management (Hanif et al., 2019). Basically, the culture that exists in micro, small, and medium businesses affects the management control implemented by entrepreneurs because it is related to entrepreneurship and productivity levels. In addition, more open small and medium enterprise (SME) owners can use it to improve their business with the idea of management control .

One way to ensure that MSME growth is in line with expectations is through mentoring. Mentoring is when other people help increase community awareness and ability regarding the problems faced so that solutions can be found (Maulana et al., 2016). One of the objectives of the MSME mentoring program for business actors is to increase business capacity and the ability to survive in any situation and condition . This mentoring is carried out by utilizing communication media to provide input on how to improve various aspects of business operations for more efficient business governance (Jamil et al., 2022). Considering the above problems, this study focuses on the need for organizations to understand the elements that influence productivity. Therefore, the researcher is interested in conducting a study related to the influence of Organizational Governance and Financial Literacy in Increasing MSME Productivity (ULAMM) at the BUMN PT Permodalan Nasional Madani (PNM) Medan Branch .

## **LITERATURE REVIEW**

### **Productivity**

Production is a comparison between output and input, according to Hasibuan (2016). Production will improve the work system, efficiency (time-material-energy), and workforce skills. Schermerhorn (2013) states that productivity is a measure of performance that is measured by considering all resources used, including human resources. Production, according to Kussrianto (2017), is defined as a comparison between the results achieved with the role and workforce within a certain time. Resource utilization and efficiency are tasks and labor. Salvatore (2011) stated that work productivity is the attitude and behavior of the workforce in a company towards the regulations and standards that have been determined by the company. These attitudes and behaviors are demonstrated in the behavior and actions of the company or organization .

According to Sunyoto (2012), productivity is defined as the comparison between the amount of resources used and the results achieved. Only humans can increase work productivity. Therefore, labor is a very important component in assessing productivity. This is due to two factors.

The first is that, compared to inputs on other factors such as capital, time, and work systems, labor costs are the largest of the costs of producing goods or services. This declining labor production can be measured or compared with the previous period . According to Sutrisno (2017), factors that influence productivity include training, mental and physical abilities of employees, and superior-subordinate relationships. However, according to Busro (2018), employee work motivation, education, work discipline, skills, work ethics attitudes, cooperation skills , nutrition and health, income level, work environment, and work .

According to the 2000 module of the Department of Manpower of the Regional Productivity Development Center of North Sumatra Province, the following factors influence employee (individual) work productivity: mental attitude, education, skills, management ability, Pancasila industrial relations, income level, nutrition and health, work environment and climate, production facilities, technology, and opportunities for achievement .

According to Sutrisno (2017), productivity indicators include ability; improvement of results achieved; work spirit; self-development; quality; and efficiency. Referring to Sedarmayanti's idea (2011), some indicators of work productivity are as follows: constructive action; self-confidence; responsibility; love of work; foresight; ability to solve problems and adapt to changing environments; creative, imaginative, and innovative; and 8) having a strong work spirit .

### **Organizational Governance**

Management comes from the word manage or to manage, which means to organize, organize, or run, and control government, companies, programs, or projects through a system and process to achieve a certain goal (Appel-Meulenbroek & Danivska, 2021). Management is a series of actions that begin with planning, organizing, allocating resources, implementing, supervising, and evaluating to achieve certain goals (Sumadi & Ma'ruf, 2020). Managing means running, taking care of, and controlling, while managing means the act, method , or process of managing .

Governance is a way or process of using political, economic, and administrative power to deal with problems faced by a country or society. It covers all sectors, including the public sector, the private sector, and the third sector, namely civil society. Good governance is defined as a governance system that includes good mechanisms and procedures for exercising political, economic, and administrative power based on the principles and measures of accountability and is carried out in a democratic, accountable, and participatory manner (Asaduzzaman, 2020) .

The Organization for Economic Cooperation and Development (OECD) describes it as a system used to set corporate objectives, provide recommendations on how to achieve these objectives, and monitor corporate performance. To improve corporate prosperity and accountability and to demonstrate value to shareholders, corporate governance is a control system consisting of various structures, procedures, and mechanisms designed to manage the company (Nuryaman, 2009). Management uses a corporate governance system, which consists of a number of rules and incentives, to regulate and monitor how the company's operations run. Therefore, good

governance can increase the possibility of long-term profits and company value for shareholders (Onasis, 2016) .

Corporate governance is a system that regulates and supervises companies with the aim of achieving a balance between the authority required by the company to ensure its existence and accountability or responsibility to stakeholders (Kusnadi, 2011). Building good corporate governance requires many systems and procedures. With this system, operations, mechanisms, and relationships can be monitored and evaluated properly. According to the National Committee on Governance Policy (KNKG) in 2006, the five principles that must be followed by effective corporate management are transparency, accountability, responsibility, independence, and equality and balance .

### **Financial Literacy**

Lusardi & Mitchaell (2015) stated that "financial literacy can be interpreted as financial knowledge that aims to achieve prosperity". Mason & Wilson (Krisna, 2010) define financial literacy as "a person's ability to obtain, understand, and evaluate relevant information for decision making by understanding the financial consequences it causes" .

Everyone should learn about finance from an early age because it has long-term effects that are beneficial for the future. According to Lusardi and Mitchell (2015), financial literacy can be considered as human investment capital that can help people make decisions about savings, credit, and retirement in the future. Individuals who have financial knowledge also feel more able to take controlled spending behaviors and make better investment decisions (Jariwala, 2013). People who are highly financially literate are usually debt literate, know about debt risks, and are in debt well. They also understand the time value of money and interest calculations (van Rooij et al., 2009; Lusardi and Mitchell, 2011). Everyone should learn about finance from an early age because it has long-term effects that are beneficial for the future. According to Lusardi and Mitchell (2015), financial literacy can be considered as human investment capital that can help people make decisions about savings, credit, and retirement in the future. Individuals who have financial knowledge also feel more able to take controlled spending behaviors and make better investment decisions (Jariwala, 2013). People who are highly financially literate are usually debt literate, know about the risks of debt, and manage debt well. They also understand the time value of money and interest calculations (van Rooij et al., 2009; Lusardi and Mitchell, 2011).

Based on a survey conducted in 2013, OJK found that the level of financial literacy of the Indonesian population can be divided into four parts, namely Well literate (21.84 percent ), Sufficient literate (75.69 percent), Less literate (2.06 percent), and Not literate (0.41 percent). According to the Financial Services Authority (OJK), the factors that influence the level of financial literacy are: 1) Gender 2) Education level 3) Income level. Meanwhile, according to Widayati (2012) the factors that influence the level of financial literacy are: 1) Socioeconomic status of parents 2) Family financial management education 3) Financial learning at state universities. A survey conducted by OJK in 2013 found that there are

four different types of financial literacy among the Indonesian population: very literate (21.84 percent), quite literate (75.69 percent), less literate (2.06 percent), and not literate (0.41 percent). The Financial Services Authority (OJK) said that several factors that influence financial literacy are: 1) Gender 2) Education level 3) Income. However, Widayati (2012) said that other factors that influence financial literacy are: 1) Socioeconomic status of parents 2) Family financial management education 3) Financial education at state universities.

### **RESEARCH METHOD**

This research is a quantitative type and will conduct testing with five independent variables, namely "organizational governance (X1) and financial literacy (X2), and one dependent variable, namely "productivity." In addition, a cross-sectional survey design will be used as a research design that allows data collection for each element of the population using only one sat for each survey. The object of the study is MSMEs that use ULAMM services at PT Permodalan Nasional Madani, Branch Me and . This study applies a descriptive analysis method, while the hypothesis testing analysis uses SEM-PLS. Population in study this is MSMEs that use ULAMM services at PT Permodalan Nasional Madani, Me and Branch.

Referring to the first rule, the researcher determined the number of samples by estimating the maximum possibility of 150 respondents. Probability sampling and nonprobability sampling are two sampling methods. This study used the purposive sampling method, which is a sampling technique without probability, where the researcher sets the rules for sampling ( Sugiyono, 2017 ), and the sample determination criteria on This research is in the form of The MSME has used ULAMM services for at least 1 year and is a customer of PT Permodalan Nasional Madani, Medan Branch.

### **Operational Definition**

Three types of variables that are often used in previous studies are used in this study. The independent variables, also known as "independent variables", are organizational governance (X1) and financial literacy (X2), and one dependent variable, namely productivity (Y). Each indicator of each dimension and variable will be entered into an interval scale; the first scale indicates strongly disagree, the second scale indicates neutral, the fourth scale indicates agree, and the fifth scale indicates strongly agree. Primary and Secondary Data are the types and sources of data used in this study. The research questionnaire was distributed via the internet. Technically, the distribution is done by spreading a link to a Google form on existing social media. The questionnaire used will use the Likert Scale Summated Rating with an interval measurement scale.

### **Validity and Reliability Test**

Researchers must know whether the questionnaire is valid or not. They must also know what indicators or dimensions can explain the meaning of the statement (Ferdinand 2014). Construct validity is a type of validity test. A reliable instrument is an instrument that produces the same data every time it measures the same object. One of the most commonly used statistics to evaluate the reliability of a research instrument is the

Cronbach's alpha coefficient. A questionnaire is said to be reliable if the answers are consistent over time to the statement (Sugiyono 2019). The structure is declared reliable if the Cronbach alpha and composite reliability values are above 0.70 . Data processing uses one of the software from Microsoft Office, namely Microsoft Excel 2010 and uses SPSS 21 software, and analyzes the SEM model with the Partial Least Squares (PLS) software approach. The analysis technique used is Structural Equation Modeling (SEM) with the Partial Least Squares (PLS) analysis method approach .

## **RESULT AND DISCUSSION**

### **The Influence of Organizational Governance towards Mentoring**

Companies run their operations through a system known as organizational governance. It is very important to incorporate governance principles into organizational activities because good and proper governance can improve company efficiency and performance (Santosa et al., 2020). In order for resources to be distributed appropriately, guidance is needed in managing all resources. Mentoring is carried out through the use of communication media to conduct various discussions needed to provide advice on how to improve various aspects of business operations so that companies can manage their businesses more efficiently (Jamil et al., 2022) .

Good organizational governance will help management and business actors understand their respective roles, responsibilities, and tasks (Wahyuningsih, 2021). This will encourage better mentoring .

### **Influence of Governance on Productivity**

To increase the value of the company and increase transparency, governance is a concept that is spread throughout the world. The application of the concept of governance in companies will have many advantages. In addition, it allows MSMEs to adopt the concept of governance, which allows them to achieve sustainable business. Yuliastutik (2016) stated that the current condition of MSMEs does not meet the requirements for implementing good governance .

Kurniawati et al. (2018), Hanifah (2015), and Uchehara (2017) conducted research on the application of GCG principles in the MSME sector. The results showed that the application of GCG principles in the MSME sector affects company performance. So, to increase productivity and business sustainability, good organizational governance principles must be applied .

### **The Influence of Financial Literacy on Mentoring**

Nowadays, people really need financial knowledge. Financial literacy helps people understand the right concepts and management so that they can make short-term and long-term decisions that are in accordance with changing needs and economic conditions (Hung et al., 2009). People who are literate will get many benefits. According to Hidajat et al. (2015), financial literacy programs can serve as a cure for many diseases associated with the financial crisis .

Expanding knowledge will help small and medium entrepreneurs (SMEs) understand formal financial access such as banking. According to Herdjiono et al. (2016), the theory of financial knowledge is related to financial literacy because financial knowledge can be taught and understood

through financial education. Therefore, providing financial education can increase a person's financial knowledge, thereby reducing the possibility of financial problems in the future. In addition, increasing financial knowledge will also increase the ability of entrepreneurs to use the financial services available to them .

Many MSMEs who run businesses do not manage their finances well, which often results in losses. There are even those who experience a change in business type every year. This is the result of mistakes in running a business or more precisely in managing business finances. As a result, to increase the growth of MSMEs, strategic efforts are needed. One way to do this is to improve the understanding of MSME actors about financial knowledge, so that business financial management can develop well (Aribawa, 2016). Mentoring is the right strategy to use. Mentoring can serve as a means to communicate about various issues needed to improve various aspects of the company's operations to be more effective and efficient (Jamil et al., 2022) .

### **The Influence of Financial Literacy on Productivity**

According to Lusardi & Mitchell (2008), financial literacy is defined as a person's ability to apply their knowledge and skills to behave better in financial matters. Thus, the concept of financial literacy considers that knowledge, skills, and behavior are interrelated. Knowledge of basic financial concepts, such as the basics of compound interest, risk diversification, time value, value of money, and the difference between nominal and real value, falls into the category of financial knowledge (Santoso et al., 2015). People who are literate will gain many benefits. According to Hidajat et al. (2015), financial literacy programs can serve as a cure for many diseases associated with the financial crisis .

According to previous research conducted by Aribawa (2016), if business actors in the MSME sector have sufficient financial literacy, the business and financial decisions made will drive gradual progress, increase the business's ability to survive in the midst of a crisis, and ultimately ensure long-term sustainability. Agree (Chimucheka & Rungani, 2011) that knowledge about finance also affects the growth and sustainability of MSMEs .

In research conducted by Widiyanti (2016), it was found that factors related to financial literacy can have an impact on the performance of MSMEs. This finding is in accordance with the theory of financial knowledge, which states that financial literacy is related to a person's ability to understand, analyze, and manage the financial resources available to them so that they can make the right financial decisions and help grow the performance of MSMEs .

### **CONCLUSION**

Based on the research results, it shows that MSMEs in BUMN PT Permodalan Nasional Madani (Pnm) Medan Branch are very productive when combined with financial literacy and organizational governance. To advance MSMEs in Medan City, improving organizational governance and financial literacy is very important. Therefore, the BUMN government must continue to provide corporate governance and financial literacy training .

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