

# The Role of Financial Technology in Micro, Small and Medium Enterprises in Financial Innovation and Social Change

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## Abstract

Background – The application of technology is a challenge for MSME to survive in the current era. The main function of using technology is to make it easier for everyone to make transactions. Rapid technology development can change the industry as financial technology (fintech). With the presence of fintech in the economic environment, it can provide new knowledge regarding financial literacy. Objectives – This research aims to analyze the role of financial technology to micro, small, medium enterprises in financial literacy in the Kebomas Subdistrict, Gresik. Design/ Methodology/ Approach – This qualitative is with research of checking the validity of the data uses the member check Findings - The results the result of this research found that micro, small, medium enterprises (MSMEs) get convenience in saving activities, save time in saving, and security through digital payment applications. MSMEs also make it easier to manage finances to find out business benefits and can develop their business. Research Implications – This research can be used as a MSME to advance business in the 4.0. Research Limitations - Research conducted by MSME who have not used digital payments because many MSME are unable to keep up with modern times.

Keywords: Financial Technology, Financial Literacy, Saving, Finance Management.

## 1.Introduction

The rapid development of technology facilitates access to information and facilitates effective and efficient management of resources. The rapid development of the internet has given birth to several innovations, especially in financial technology that meets the needs of the community, both to provide access to services and to process transactions (Rachma, 2018). The growth of the internet creates connections for micro, small and medium enterprises (MSMEs), which are currently the most important assets for a region because they can boost the regional economy.

The use of fintech has many benefits for modern society because fintech provides convenience and comfort in accessing facilities for innovation and can change the social environment as well as what happened in the Indro area, Gresik Regency, East Java. People in the Indro area know a lot about the use of fintech which provides many benefits in their daily lives. In addition, the Indro area is included in the urban area and the majority of its people are the young generation or millennials who understand technology. So that many people in the Indro area are starting to switch and use fintech. The presence of fintech provides new experiences for business people in running their business. The establishment of start-ups like Gojek or Grab has a big role in the development of MSMEs. The application of fintech in MSMEs has a role as business capital financing, and also as a financial regulator. Fintech can help companies get financial products more easily. MSMEs in facing industry 4.0 is a challenge and is also needed because of the changing times. Advances in internet-based technology have caused fundamental changes in all aspects of modern human life. Business actors, especially MSMEs, must adapt to the industrial revolution 4.0 by prioritizing the urgency of business models such as the use of technology and applications, so that business actors can deal with them. Business actors must also cooperate with other parties, and build connections internally (resource-based view) and externally (knowledge-based view), and build the economy for the common good.

MSMEs are considered as the backbone of the economy. The positive impact of financial technology can be felt from disruptive technological innovations, which can create broad market opportunities that can help businesses adapt quickly. These benefits are not enough because financial technology, especially digital payments, can make MSMEs more developed. At least fintech provides benefits in terms of payment convenience and security, a better customer shopping experience, transparency and regular record keeping, and MSMEs get value in terms of gaining competitive advantage through technology support.

Table 1.1  
 Results of Interview 4 Respondents

No	Informant Name	Kind of Business	Interview Results
1	Ibu Atika	Seller of Pisang Crispy Lumer	<i>Fintec</i> is very helpful for running a business
2	Bapak Teguh	Seller of Makanan Khas Gresik “Kang Wahab”	<i>Fintec</i> is very helpful for running a business
3	Ibu Fitri	Seller of Martabak & Roti Canai Al – Fazza	<i>Fintec</i> is very helpful for running a business
4	Ibu Sinta	Seller of Geprek Lombok Abang	<i>Fintec</i> is very helpful for running a business

Source: Results of interviews with food vendors in Indro

From Table 1.1 the results of the interviews, it can be concluded that the MSMEs in Indro have *Fintec* very helpful for sales businesses that are being built. Almost all of the SMEs in Indro are familiar with *Fintec* and some have already implemented the use of *Fintec*. MSMEs value *Fintec* as a new innovation that has a huge positive impact on MSMEs. *Fintec* is able to make MSMEs change their minds to use *Fintec*. This change in thinking happened because of the surrounding environment so that now almost all MSMEs in the Indro area use *Fintec*.

## 2. Literature Review

### Financial Technology (Fintech)

Financial Technology or financial technology or often referred to as fintech, is defined as the application of digital technology in financial intermediaries (Aaron, et al, 2017). Fintech is also defined as technological innovation in financial services, business models, applications, processes or products that can have a significant impact on the provision of financial services (Financial Stability Board, 2017). Broadly speaking, fintech is defined as an industry consisting of companies that use technology to make financial systems and delivery of financial services more efficient (World Bank, 2016).

### Digital Payments (E-Wallet)

A digital wallet or e-wallet is an electronic device, service or even a software program (application) that allows its users to make online with other users to buy goods and services Money or balance in an electronic wallet is money that was previously stored in a digital wallet. In other cases, the user can top up the e-wallet by connecting a bank account to the e-wallet account. Because it contains electronic money, each account is of course equipped with complete identity data related to the account owner. In addition, the existence of a digital wallet application has very diverse functions, not only as a means of payment but as a means of verification in buying and selling activities (divedigital.id, 2020).

### Micro, Small and Medium Enterprises (MSMEs)

Small and medium enterprises have a strategic role in the development of the national economy and employment also plays a role in the distribution of business results. MSMEs are a part that is able to reduce economic and social inequality as well as promote institutions and cooperation in the family system in the economic field which can increase the purchasing power of domestic consumers (Wulansari, et al, 2017).

### Digital Financial Innovation

The development and advancement of technology is currently increasing rapidly, which has an impact on the emergence of digital financial innovation or commonly referred to as the abbreviation (IKD), namely renewal in business activities in the financial services sector, especially in the digital world. Two independent institutions, namely Bank Indonesia (BI) and the Financial Services Authority (OJK), have the authority to regulate and supervise Financial Technology in Indonesia, which are then referred to by the Financial Services Authority as a Digital Financial Innovation company (Digital Financial Innovation Company). (IKD) (satria, 2019: 13-16).

### Social Change Use of Financial Technology

According to Wang & Chou (2014), social change refers to how other people can change one's behavioral decisions. Social change is related to external pressure (from important people in one's life, such as family, friends, and supervisors at work). People are encouraged to use Financial Technology because of encouragement from people around them, namely from family, friends, co-workers and others.

### 3. Research Methodology

#### Research Approach

This research uses qualitative research. Qualitative research is research that aims to understand a phenomenon experienced by research objects such as perceptions, actions, behaviors, motivations and others holistically and describe it in the form of words and language, in natural contexts and by using various natural methods ( Moleong, 2011: 6).

#### Location and Research Focus

The location in this study is MSME snacks that use digital payments in the Indro area, Gresik, East Java. The actors or people in this study are three MSME owners who have not used digital payments.

#### Types and Sources of Data

In this study, the data sources used were primary data. Primary data is data obtained by researchers directly from data sources through interviews. Meanwhile, according to Lofland in Moleong (2012: 157) says that the primary data source in qualitative research is in the form of words and actions. Data was taken through interviews, interviews were conducted as owners of MSME snacks in Gresik Regency in the Indro area who wanted to use digital payments.

#### Data Collection Techniques

Data collection techniques are processes required in research. Data collection carried out by researchers is original data. According to Sugiyono (2016: 62), the main source is a data source that directly provides data for data collection.

The data collection that will be carried out by researchers is interviews. According to Sugiyono (2015: 384), an interview is a meeting of two people at one time, through question and answer to exchange information and ideas so that they can give meaning to a particular topic. Through interviews, researchers will find more information related to informants when interpreting situations and phenomena that occur.

This research was presented through unstructured interviews by asking questions that had been prepared beforehand based on the problems in this research design. In carrying out this interview, the researcher will prepare questions that will later be asked when conducting interviews with informants and will record what was stated by the informant. Thus, from the results of the interview, the researcher obtained valid results according to the research topic. Interviews were conducted with MSME actors who wish to use digital payments in Indro, Gresik Regency.

#### Data Analysis Techniques

According to Bogdan, data analysis is the process of systematically finding and summarizing data obtained from interviews, field notes, and other materials so that they can be easily understood and can be shared with others. Data analysis is done by organizing data, describing it as a unit, synthesizing it, arranging it as a pattern, choosing what is important and what will be learned, and drawing conclusions that can be shared with others

#### Data Validity Test

Data validity is carried out to prove whether the research being carried out is real scientific research and to test the data obtained. The validity test of the data used in conducting this research is Member Check for which data in this study can be accounted for as scientific research. Member Check according to Sugiyono (2013) is a process of checking data obtained by researchers to data providers.

### 4. Results And Discussion

The results of Indro, is a regional name located in Gresik Regency, East Java Province. Indro has an area of 405 hectares, with a population density of 2,120 people/km<sup>2</sup>. Which are the different livelihoods or occupations of the people in Indro.

UMKM is one of the livelihoods that has been in great demand by some residents in Indro. From small businesses to big businesses. In technological advances like today, SMEs also experience changes and keep up with the times. Many food MSMEs in Indro have used financial technology in their businesses, such as using digital payments in conducting business transactions. The owner of a food MSME in Indro opens his shop every day from Monday to Sunday. Some shops are open from 09.00 to 22.00 and some are open from 16.00 to 22.00.

### 5. Discussion

The results of the qualitative research explain that the role of financial technology in MSMEs in innovation and social iteration changes regarding the use of applications can have benefits for business owners such as providing convenience, saving time, and guaranteed security. Community networks that can provide business benefits and business continuity.

According to Artkinson and Messy (2012), the OECD International Network on Financial develops an instrument or indicator to survey financial innovation, which can be used with different backgrounds in several countries. Then, this instrument or indicator was updated by the OECD in 2016 the three components of the instrument or indicator are as follows:

- a. Financial Knowledge indicators financial knowledge in this terminology are related to basic knowledge of finance, financial management, credit and debt, savings and investment, risk, and insurance.
- b. Financial Behavior: indicators of financial behavior related to behavior in preparing budgets, saving money and controlling money, investing, and paying obligations in a timely manner.
- c. Financial Attitude: an indicator of financial attitude, which is related to attitudes towards money and planning for the future.

Financial knowledge can be obtained from formal education and informal education. This formal education is like high school or college courses, seminars, and off-campus training classes. At the same time, informal resources can be obtained from the surrounding environment, such as from parents, friends or colleagues, and from one's own experiences.

Financial knowledge has been shown to have a significant impact on financial management and is more consistent in using various policies (Sarah, 2009). This can be explained by the way a person manages personal finances, and financial management is the main factor that causes one's financial satisfaction or dissatisfaction. In Mien and Thao (2015), financial attitudes play an important role in determining a person's financial behavior (Davis and Schumm, 1987; Shih and Ke, 2014). Financial attitudes shape the way people spend time, save, hoard, and waste money (Furnham, 1984).

Weston and Brigham (1981) describe financial management behavior in Mien and Thao (2015) as coordinating financial decisions, personal motivation, and company goals. Therefore, financial management is related to the effectiveness of fund management.

## 6. Conclusion

Based on the research results in this study, the following conclusions can be drawn:

- a. The proposition of the role of financial technology in financial innovation and social change regarding using digital applications is seen from financial behavior.
- b. The financial behavior of Indro MSME owners in financial innovation regarding payments through applications is to provide convenience, save time, and security. The convenience that is obtained in using digital payments is important in running a business where owners can use the application properly and wisely. Then it can also save MSME owners time because they no longer need to look for small money for change, just pay according to the bill through the application of each owner. As well as getting security in the balance that is in the application that will not be forfeited or deducted every month by the admin.
- c. The role financial technology in financial literacy regarding financial management is seen from financial attitudes. When viewed from the attitude of social change, MSME owners in Indro in financial innovation and social change are business profits and business continuity. Business profit is one of the benefits that is obtained when someone understands and applies community networks in their business, they can know and predict the results of their business profits. Which of these community networks are also MSME owners in Indro can develop their business.

## 7. Recommendations

Based on the results of the analysis, discussion, and research conclusions, the suggestions from researchers that can be given are as follows:

- a. For MSME Owners  
It is recommended that MSME owners continue to update digital applications according to updated information on their respective cell phones so that they can using the application comfortably this can reduce the risk if the application again has an error.
- b. For Further Researchers  
For future researchers, the results of this study can be used as a reference for future researchers and conduct more in-depth research on the role of financial technology in financial innovation literacy and social change. This research is also more focused on MSME businesses engaged in food; it is hoped that further researchers can conduct research on MSME in other fields

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