

# The Effect of Financial Technology on The Performance of Small and Medium Enterprises Moderated By Financial Inclusion in the City of Ambon

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## ABSTRACT

*The purpose of this study is to determine and analyze the effect of Financial Technology on MSME Performance in. know and analyze the effect of Financial Inclusion on MSME Performance in Ambon City, and want to analyze financial inclusion to strengthen the influence of Financial Technology on MSME performance or not. The research method used is quantitative descriptive with a sample of 50 people spread across 5 Subdistrict in Ambon City. The results obtained that financial technology has a significant positive effect on the performance of MSMEs, financial inclusion has no effect on the performance of MSMEs but financial inclusion strengthens the influence of FinTech in influencing the performance of MSMEs in the city of Ambon.*

**Keywords:** Financial Technology, Financial inclusion, financial performance .

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## I. INTRODUCTION

MSME actors are required to be able to compete with other MSMEs, innovate, and undertake new and different ventures in order to achieve business performance growth. However, MSMEs still face weaknesses such as a lack of long-term business orientation and knowledge. Businesses are generally run conventionally due to a lack of knowledge in finance and management, so that productivity is often considered to be the same as business performance (Fadila, 2021).

Business performance is a measure of the results of business activities during a certain period. In this study, business performance is measured comprehensively, covering financial and non-financial performance measures. MSME performance can be reviewed from several aspects, namely financial perspective, customers, internal processes, and learning and growth, known as the Balance Scorecard (Wibowo, 2018).

Based on the data obtained, it can be seen that in 2021, there were 29,240 MSMEs in Ambon City, an increase of 4,161 from the previous year, consisting of 2,881 in trade, 1,050 in services, and 230 in industry. In 2022, there was an increase of 302 businesses to 29,542, and in 2023, there was an increase of 1,024 to 30,566. The business opportunities available to MSMEs can be said to be unlimited because any field has the potential to become an MSME business. Competition is inevitable for MSME players, but this can be addressed by continuously innovating and keeping up with business developments (Marlinah, 2020).

## II. THEORY

Financial Technology or Fintech is an innovation in the financial services sector that utilizes technology to improve the efficiency, convenience, and reach of financial services. Fintech includes services such as digital payments, online lending (peer-to-peer lending), digital financial management, and crowdfunding systems.

According to Schueffel (2016), fintech is a combination of technology and financial services that aims to transform, accelerate, and simplify traditional financial services. In Indonesia, fintech has developed rapidly and has become the main alternative for MSME players to obtain quick and easy access to financing (OJK, 2022).

Fintech plays an important role in supporting MSMEs, particularly in facilitating access to capital, payments, and financial transaction records. With the use of fintech, MSMEs can accelerate business growth and improve operational efficiency (Arner et al., 2015).

MSME performance refers to the extent to which micro, small, and medium enterprises can achieve their business objectives, both in financial and non-financial aspects. MSME performance indicators can include increases in turnover, net profit, number of customers, and business productivity.

According to Kaplan and Norton (1996), business performance can be measured comprehensively using the Balanced Scorecard approach, which covers financial, customer, internal business processes, and learning and growth perspectives. In the context of MSMEs, performance is often associated with revenue growth, cost efficiency, and business sustainability (Tambunan, 2012).

The use of fintech can help improve MSME performance by providing access to capital, expanding market reach through digital platforms, and accelerating business transactions.

Financial inclusion is a condition in which every individual or business actor has access to formal financial products and services, such as savings, credit, insurance, and payments.

According to the World Bank (2014), financial inclusion is key to poverty alleviation and promoting inclusive economic growth. In Indonesia, financial inclusion is a national priority through the National Strategy for Inclusive Finance (SNKI), with the aim of increasing financial access for all levels of society, including MSMEs.

In the context of this study, financial inclusion acts as a moderating variable, namely a variable that strengthens or weakens the relationship between fintech and MSME performance. A high level of financial inclusion is believed to increase the positive impact of fintech use on MSME performance (Demirgüç-Kunt et al., 2018).

### **III. METHODOLOGY**

This study is a quantitative descriptive study. Through this study, the effect of financial technology on the performance of MSMEs mediated by financial inclusion in Ambon City will be analyzed. In addition, a survey approach was also used in this study with the aim and purpose of determining the status and symptoms and identifying similarities in status by comparing them with selected and/or predetermined standards (Arikunto, 2010). This study uses a quantitative approach with an explanatory research method. This approach aims to explain the causal relationship between the independent variable (financial technology), the dependent variable (MSME performance), and the moderating variable (financial inclusion) through statistical hypothesis testing. The research was conducted in Ambon City.

The population in this study was all MSME actors who used financial technology services in the specified area. The sample was determined using purposive sampling, which is sampling based on certain criteria, including: 1). MSMEs that have been actively operating for at least 2 years, 2). Have used fintech services (e.g., e-wallets, online loans, payment gateways), 3). Willing to fill out the research questionnaire.

### **IV. RESULT**

#### **4.1. The Effect of Financial Technology on MSME Performance**

Based on the results of hypothesis testing, it can be concluded that financial technology has a significant effect on MSME performance with a standardized coefficient value of 0.816 (positive) with a significance level of  $0.000 < 0.05$ , meaning that there is a positive and significant effect between financial technology and the performance of MSMEs in Ambon City.

Financial technology is an innovation in the financial sector that refers to modern technology. This innovation aims to introduce practicality, ease of access, convenience, and economical costs. With financial technology, even remote communities can use technology-based financial services without having to travel long distances to obtain financial services. Financial technology has helped finance small and medium-sized businesses that lack access to banking. With mature regulations, MSMEs are encouraged to develop their businesses by making easy loan transactions through financial technology.

Financial technology plays an important role in improving the performance of Micro, Small, and Medium Enterprises (MSMEs) by providing various benefits. Studies have shown that the adoption of digital finance, digital payments, and digital marketing has a positive impact on the financial performance of MSMEs, leading to increased growth and development. In addition, the use of financial services and information technology has been linked to improved financial performance in SMEs, highlighting the importance of integrating these services into business operations. Furthermore, several previous studies have also reported that the combination of financial technology and financial literacy has been found to significantly influence the development of MSMEs, emphasizing the need for businesses to utilize technology and improve their financial knowledge in order to thrive in the current economic landscape. Overall, integrating FinTech into MSME

operations can lead to increased competitiveness, service quality, and financial capabilities, which ultimately contribute to the growth of these companies.

This is in line with research conducted by RossalinaChristanti in 2023 entitled Digital Adoption and Financial Performance: Evidence From Indonesian SMEs in the Food and Beverage Sector, which shows that financial technology partially affects the performance of MSMEs. It is also in line with research conducted by Novia Utami in 2023 entitled "Analysis of the Use of Financial Technology and Financial Literacy Among MSMEs," which shows that FinTech positively and significantly influences the development of MSMEs and that FinTech enables faster and easier transactions for the growth of MSMEs.

#### 4.2. The Effect of Financial Inclusion on MSME Performance

Based on the results of hypothesis testing, it can be concluded that financial inclusion has no significant effect on the performance of MSMEs with a standardized coefficient value of -0.064 (negative) with a significance level of  $0.477 > 0.05$ . From these results, it can be said that there is no positive and significant effect between financial inclusion and the performance of MSMEs in Ambon City.

The growth of MSMEs has an impact on community economic growth because they offer broad business opportunities, but MSME entrepreneurs still find it difficult to develop their businesses due to capital constraints. One way to overcome these capital constraints is to implement financial inclusion.

The research results are not in line with the theory that was developed. Financial inclusion is defined as access to appropriate financial products, including credit, savings, insurance, and payments, as well as quality access, including convenience, affordability, suitability, and consumer protection, and that such access is available to everyone. This does not affect the performance of MSME businesses because financial technology (Fintech) has replaced the traditional financial institution system. Marginingsih (2019) explains that fintech by financial institutions can increase national financial inclusion. Other data also shows that people with higher education backgrounds, as shown in the 2019 National Financial Literacy Survey (SNLKI) by OJK, indicate that respondents with a college education have the highest financial inclusion index at 88.7% compared to other educational backgrounds.

The above analysis is relevant to the research conducted by (Marginingsih, 2019), which states that the ability to adapt to technology (fintech) will influence the development of company strategies. The process of adapting to fintech is urgently needed to eliminate financial inclusion barriers so that financial inclusion no longer hinders the performance of MSME businesses. This research was conducted in Ambon City, which is the center of business and trade in Maluku. The people of Ambon City who have adapted fintech in their daily lives have a broad mindset so that they are better able to take advantage of existing opportunities to improve their business performance. If the mindset of business actors is still limited to short-term business development and limited to traditional financial access, it will be difficult to develop a business. Therefore, financial inclusion in this study no longer has a significant effect on MSME performance because the proper implementation of fintech has broadened the mindset of MSME players. This study is in line with the research conducted by Senda YunitaLeatemia (2023), which states that the level of financial inclusion does not affect MSME performance. The results of this study are also in line with research conducted by Sari, Rimbano, et al. (2022), which states that financial inclusion has no effect on the sustainability of MSME businesses

#### 4.3. The Effect of Financial Technology on MSME Performance Through Financial Inclusion.

Based on the results of testing the impact of financial technology on MSME performance through financial inclusion, the P-value is 0.01 with a significance level of  $0.01 < 0.05$  (significance). From these results, it can be concluded that financial technology has a significant impact on MSME performance through financial inclusion.

MSMEs play a major role in efforts to improve economic development in Indonesia, economic growth, and the creation of new jobs. With the improvement and development of MSMEs, it is hoped that the Gross Domestic Product (GDP) can be increased and more new workers can be absorbed to reduce unemployment and poverty. This is especially true after the implementation of the ASEAN Economic Community (AEC), which requires MSME players to produce new innovations so that they can meet market demands and make Indonesia a market leader in its own country and in ASEAN (Sugiarti et al., 2019). To increase innovation, capital is needed, so banks, as one of the financial institutions that operate, must be present to meet the needs of business players. These needs certainly include the provision of capital, but also assistance with payment systems. In today's digital era, banks cannot just carry out their operations conventionally, relying solely on activities

through branch offices, which tend to be exclusive. Instead, banks must innovate in their business activities, one of which is by collaborating with financial technology companies.

The emergence of financial technology innovations has provided a breath of fresh air for MSME business actors. Financial technology helps business actors to more easily access financial products and improve financial literacy. Business actors can utilize financial technology as a means of financing their companies. Based on research on the role of financial technology in MSMEs, studies by Muzdalifa et al. (2018), Dermawan (2019), Hutabarat (2018), and Rahardjo et al. (2019) state that the presence of financial technology contributes to the development of MSMEs. The role of financial technology is not limited to business capital financing, but also extends to various aspects such as digital payment services and financial management.

## V. CONCLUSION

Based on the results and discussion presented in the previous chapter, it can be concluded that:

1. FinTech (Teknologi Keuangan) berpengaruh secara positif signifikan terhadap kinerja keuangan pelaku UMKM di kota Ambon.
2. Inklusi keuangan tidak berpengaruh secara signifikan terhadap kinerja keuangan pelaku UMKM di kota Ambon.
3. Inklusi Keuangan Memperkuat Pengaruh Financial Technology terhadap kinerja UMKM.

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