PERFORMANCE AND SUSTAINABILITY
OF HALAL FOOD SMES

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Abstract
This study investigates the performance and sustainability of halal food SMEs in the FinTech era. The large aggregate contribution of SMEs does not yet reflect good performance in domestic and foreign market competition due to lack of financial literacy. A total of one hundred respondents are selected using the quantitative method as sources of data collection. The questionnaires are distributed using a purposive sampling method in Surakarta, Indonesia. The software used for analysis is SEM-PLS. The results of this study state that the performance and sustainability of SMEs are influenced by FinTech and financial literacy. FinTech can support financial literacy so performance and sustainability SMEs will increase. Consequently, testing the effect of fintech and literacy on the performance and sustainability of MSMEs

Keywords: FinTech, Literacy, Performance, Sustainability, SMEs

Introduction

The halal industry is the latest trend in the global market. With a Muslim population of 3 billion people, the halal industry is one of the fastest growing businesses. These industries include sectors such as finance, tourism, services, transportation and food. Food is a primary need in human life and the halal food market is very potential with Islam as the fastest growing religion in the world (Ismail, 2016). The global community awareness about

halal food was increased due to the migration of people living in non-Muslim countries into Muslim countries. This evidence shows that the acceptance of Muslims and non-Muslims on halal certification is an opportunity for halal food SMEs to compete globally (Fard & Amiri, 2018). Thus, halal food SMEs players must implement strategies and approaches so that they can perform well and have sustainability.

The huge potential of the halal culinary market is of course very attractive to industry players, including Indonesian SMEs. Moreover, Indonesia is a country with the largest Muslim population in the world so that it is a potential market for halal products. With this opportunity, Indonesian SMEs should be able to become major players in the domestic market. Surakarta City as the object of research is a potential area for the SMEs development in Central Java. The number of SMEs fostered by Dinas Koperasi dan UMKM Kota Surakarta until the end of 2018 specifically in the productive sector was around 3,200 or increase of 10% (Bank Indonesia, 2018). The city of Surakarta also has a very important role in Islam development in Java and the majority of its population is also Muslim. With so many Muslims in this city, there are also very many SMEs engaged in halal food.

The large aggregate contribution of SMES does not reflect good performance in the domestic and foreign competitive markets (Wardi et al., 2017). SMEs players still have a low level of entrepreneurship in making innovations, inadequate level of expertise, limited networks, minimal connectivity in exploiting the market and limited financial access for SMEs. Some of the weaknesses encountered will hamper the SMEs performance growth that they will find it difficult to compete (Lantu et al., 2016; Prasanna et al., 2019). SMEs are the main driving force for developing countries economies but are one of the sectors that are vulnerable to globalization due to challenges of competitiveness.

The success of an SMEs will be seen from the improvement in their performance. To experience an performance increases in this digital era, SMEs need the absorption of new knowledge that they may not have learned. A significant obstacle to the sustainable growth of performance of SMEs in developing countries is a lack of knowledge, skills, attitudes and awareness to handle and direct their organization's finances in a strong, transparent and professional manner (Eniola & Entebang, 2015). Bank Indonesia in 2012 also

stated that Indonesia SMEs had low knowledge of business management, especially in the financial aspect. (Joo & Grable, 2000) stated that the reason why business people, especially SMEs make inappropriate and ineffective financial decisions is because of their lack of financial knowledge or what is often called financial literacy. This lack of financial literacy has made it difficult for SMEs players to apply loan funds to improve their business performance (Prasanna et al., 2019). Financial literacy enables SMEs to create healthy and appropriate capital structures for organizations so that they can minimize capital costs and increase their sustainability.

To support financial literacy so that SMEs performance and sustainability of increases, a new technology platform has emerged, namely Financial Technology (FinTech). Fintech is facilitating the emergence of start-ups that offer alternative sources of financial services. Lenders through FinTech will not only bring competition to the corporate market but will also make SMEs more profitable. To support financial literacy, FinTech can bridge users to conduct financial transactions directly. In addition, in terms of increasing SMEs capital, FinTech provides easy access through online loans (Hally, 2016). Despite the views for and against the Sharia compliance nature of FinTech products, the various applications of FinTech for the Islamic finance industry cannot be denied. (Hasan et al., 2020). These laws are based on rules; Every transaction in muamalah is basically allowed unless there are arguments against it, then at that time the law turns into haram.

The problem that will be studied is how the influence of financial literacy and FinTech on the SMES performance and sustainability in the Surakarta City. What is important in this research is the need for knowledge of financial literacy and Fintech in improving the performance and sustainability of Surakarta City Halal Food SMEs. In addition, the potential of SMEs in Surakarta City with their large local halal products must be managed properly so that they can advance the national economy.

Research Methods

This research is a descriptive research, which is a type of research that aims to provide an overview of the research subject based on variable data obtained from the subject under study and is intended for hypothesis testing (Azwar, 2000: 56). The population in this study were 1,729 halal food SMEs in Surakarta. The sampling method in this research is non probability sampling

with purposive samping technique. The sample size to be used is determined using the Slovin formula with the results of 95 which is rounded up to 100 respondents.

According to Ghozali (2018) the data analysis technique used in this research is quantitative analysis. Quantitative analysis is carried out by collecting existing data then processing and presenting it in the form of tables, graphs, and analysis is made so that conclusions can be drawn to form the basis of decision making. The research hypothesis testing was carried out using the Structural Equation Model (SEM) approach using Partial Least Square (PLS) software. PLS is a component or variant based structural equation model (SEM). Evaluation of the measurement model (outer model), is how each indicator block relates to its latent variable. The block equation with indicators can be written as follows

$$x = \Lambda_x \xi + \varepsilon_{x-}$$

$$y = \Lambda_y \eta + \varepsilon_y$$

Descriptive Statistics

In the section below, we will describe the data obtained from the respondents of this study. This descriptive data describes the profile or consistency of the respondents that need to be considered as additional information in understanding the research results. A total of 100 questionnaires were distributed to halal food SMEs in Surakarta and all of the questionnaires were returned.

Table 2: Respondent Characteristics

Demographic	Information
Business Age	Less than 1 year: 12 respondents. 1-5 years: 53 respondents. 6-10 years: 18 respondents. More than 10 years: 17 respondents.
Gender	Male: 60 respondents. Female: 40 respondents.
Respondents' Age	Below 20 years old: 0 respondents. 21 -30 years old: 39 respondents. 31-40 years old: 37 respondents. 41-50 years old: 14 respondents. More than 50 years old: 10 respondents.

Respondents' Background	Education	Elementary School: 7 respondents.
		Junior High School P: 6 respondents.
		Senior High School: 35 respondents.
		Bachelo: 51 respondents.
		Master: 1 respondents.
		Doctor: 0 r respondents.
Business Income		Less than 2M: 22 respondents.
		2M-4M: 44 respondents.
		4M-6M: 22 respondents..
		More than 6M:: 12 respondents.
Employee		No employee: 41 respondents.
		1-5 employees: 56 respondents.
		6-10 employees s: 2 respondents.
		11-15 employees s: 1 respondents.
		More than 15 employees: 0 respondents.
Total		100 respondents.

Sources: Researchers' Survey, 2020

Model Estimation

A loading factor value of 0.50 or more is considered to have sufficiently strong validation to explain latent constructs (Hair et al., 1998). The value of the initial outer loading on the variables of Financial Literacy, FinTech, Sustainability and Performance performance can be seen in table 3. According to Yamin dan Kurniawan (2011) indicators that have a loading factor value between 0.5 - 0.6 are acceptable.

Table 3 Early Outer Loading

	Financial Literacy	FinTech	SMEs Sustainability	SMEs Performance
LIT1	0.855			
LIT2	0.823			
LIT3	0.281			
FIN1		0.735		

FIN2	0.830		
FIN3	0.818		
SUS1		0.853	
SUS2		0.950	
SUS3		0.878	
PERF1			0.363
PERF2			0.811
PERF3			0.782
PERF4			0.557
PERF5			0.533
PERF6			0.814
PERF7			0.855

There are two indicators that are eliminated in this model, namely LIT3 AND PRF1. Both of these indicators have a loading factor value below 0.50.
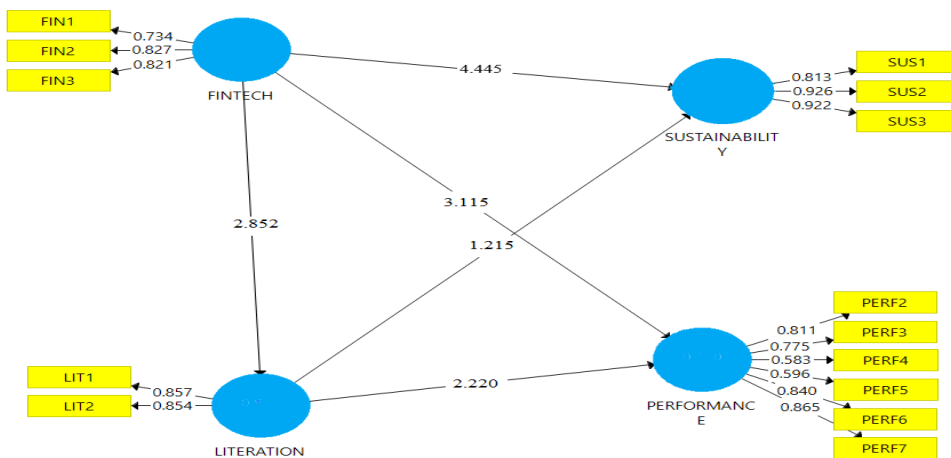
After eliminating the invalid variable indicator in the model, then the model is recalculated so that it produces a new outer loading value and can be seen in the following final path diagram:

Before starting the actual model analysis, the significance level of the conceptual model variables will be tested. The reliability of the instrument in this study was measured by two criteria, that is value of composite reliability and Cronbach's alpha. The results can be seen in table 4 below

Table 4: *Construct Reliability and Validity*

Variabel	Cronbach'	Composite	Average Variance

Finncial Literacy	0.714	0.734	0.837	0.632
FinTech	0.844	0.863	0.885	0.568
SMEs Sustainability	0.877	0.983	0.918	0.790
SMEs Performance	0.634	0.634	0.845	0.732

Discriminant correlation test is performed to see the correlation between constructs and other constructs. If the square root of average (AVE) value of each construct is greater than the correlation value between the constructs and other constructs in the model, it can be concluded that the construct has a good level of validity.

Table 5: Discriminant Validity

	FinTech	Performance	Sustainability	Literacy
FinTech	**0.795**			
Performance	0.314	**0.753**		
Sustainability	0.197	0.616	**0.889**	
Literacy	0.963	0.310	0.175	**0.856**

In table 5 the comparison of the AVE root values shows that each of these values is greater than the correlation between other variables, so it can be concluded that all latent variables in the study have good construct validity and discriminant validity. Structural model testing is done to see the relationship between the constructs, the significance value and the R square of the research model. The R-square value can be used to assess the effect of certain independent variables on the dependent variable. The estimated value of R-square can be seen in Table 6 below.

Table 6 R-square Value

	R-Square	*R-square Adjusted*
Financial Literacy	0.111	0.102
SMEs Performance	0.226	0.210
SMEs Sustainability	0.260	0.245

Based on Table 6, it is known that the R-square value for the financial literacy variable is 0.111 which can be interpreted that the magnitude of the influence of the FinTech variable on Financial Literacy is 11.1% while the remaining 88.9% is explained by other variables outside of this study. The R-square value for the MSME Performance variable is 0.226 which means that 22.6% of the MSME performance variable is influenced by the FinTech and Financial Literacy variables while the remaining 77.4% is influenced by other variables outside of this study. The R-square value for the MSME Sustainability variable is 0.260 which means that 26% of the MSME sustainability variable is influenced by the FinTech and Financial Literacy variables while the remaining 74% is influenced by other variables outside of this study.

Results and Discussions

Whether a proposed hypothesis is accepted or not, it is necessary to test the hypothesis using the Bootstrapping function in SmartPLS 3.0. The hypothesis is accepted when the significance level is less than 0.05 or the t-value exceeds the critical value (Hair et al., 2014). The t statistics value for the 5% significance level is 1.96.

Table 7 Path Analysis Results

	Variable	*Original Sample*	*Sample Mean*	*Standard Deviation*	*T Statistics*	*p-values*	Result
H1	Financial Literation → Performance	0.333	0.393	0.117	2.852	0.005	accepted
H2	Financial Literation → Sustainability	0.293	0.295	0.094	3.115	0.002	accepted

H3	FinTech → Performance	0.446	0.447	0.100	4.445	0.000	accepted
H4	FinTech → Sustainability	0.289	0.350	0.130	2.220	0.027	accepted
H5	FinTech → Financial Literation	0.140	0.188	0.116	1.215	0.225	rejected

Judging from the results of the path coefficient in the path analysis in table 7, it can be seen that the original sample value, p-value, and t-statistics are used as a reference for whether a hypothesis is accepted or not. The hypothesis is accepted if t-statistics> t table or p value <0.05.

From the research results, there is a positive and significant influence between financial literacy and halal food SMEs performance in Surakarta. This is in accordance with the results of the path coefficient with the original sample value of 0.333 which shows a positive number with a t-value of 2.852 which is greater than the t-table value of 1.96 and a p-value of 0.005 so that it can be said that the financial literacy variable has a significant effect on the SMEs performance. It can be interpreted that the better financial literacy is, the SMEs performance will increase and vice versa if financial literacy is bad, the SMEs performance will also be low. Most of the respondents stated that they have a budget plan and record of expenses every month. This means that hall food SMEs players in Surakarta have carried out financial planning and have a good financial administration system so that in running their business they can perform well as seen from the existence of business growth from time to time.

This study is in accordance with previous studies, the financial literacy variable has a positive effect on the SMES performance (Arner et al., 2020). Financial literacy is needed by SMEs players to measure their financial competence. Thus, these entrepreneurs will actively participate in financial markets because they already know about financial matters. In addition, employers regardless of age are consistently involved in making decisions

regarding resource allocation and use. These activities almost always have financial consequences, for these activities to be effective the entrepreneur must be financially literate.

From research results testing, there is a positive and significant influence between financial literacy and Halal Food SMES sustainability in Surakarta. This is in accordance with the results of the path coefficient with the original sample value of 0.293 which shows a positive number with a t-value of 3.115 which is greater than the t-table value of 1.96 and a p-value of 0.002 which is smaller than 0.05 so that it can be said that the financial literacy variable has a significant effect on SMES sustainability. It can be interpreted that the better financial literacy is, the SMES sustainability will be better maintained.

With the recording of budget expenditures, SMEs entrepreneurs can control the business they are in so that they can break even or break even point (BEP). By achieving BEP, the sustainability of their business in the future will be guaranteed. Entrepreneurs who are well literate will respond to economic changes so that they can make well-directed and solution decisions so as to create business sustainability. This study is in accordance with previous studies where financial literacy has an effect on the SMEs Sustainability (Noor et al., 2020). From this research it can be concluded that SMEs entrepreneurs have sufficient financial literacy skills so that they can make business and financial decisions in order to create improved business development over time. This is in order to increase their ability to survive in the midst of a crisis so that in the end it will make the business have long-term sustainability.

The results showed that there was a positive and significant influence between FinTech and halal food SMEs performance in Surakarta. SMEs players assess to FinTech provides convenience in supporting the businesses they run. In addition, applications that are easy to obtain and easy to run by entrepreneurs and consumers will have an impact on increasing business. Another consideration is the transparency of incoming and outgoing traffic so that the level of risk is also low. This is in line with the results of research from (Noor et al., 2020) where there is an effect of the use of technology on the SMEs performance because with the use of technology, activities and costs incurred by business actors can run efficiently. With the birth of FinTech as a new culture, it will open opportunities for comfort for both business owners and a new culture, so that a sense of comfort in transactions will emerge so that it will improve SMEs performance.

From the results, there is a positive and significant influence between FinTech and the halal food SMEs sustainability in Surakarta. This is in line with research conducted by (Noor et al., 2020) where along with the digital financial transformation process, it is increasingly possible for individuals to invest small amounts of money so that sustainable development goals (SDGs) will be created. Most of the food entrepreneurs in Surakarta are still small and medium scale with not too much capital can use the facilities of FinTech in order to achieve business sustainability.

Path coefficients of the original value sample of the FinTech relationship with financial literacy is 0.140 in a positive direction. The FinTech t-statistic value on financial literacy is 1,215 smaller than the t-table value of 1.96 or it can be seen from the p-value of 0.225 which is greater than 0.05. Thus, it is said that the FinTech variable does not have a significant effect on the financial literacy variable. The ups and downs of FinTech don't really affect financial literacy. From these results we can see that SMEs entrepreneurs use financial services but do not understand and have good knowledge about these services (Noor et al., 2020). Entrepreneurs are limited to following trends among SMEs entrepreneurs who use FinTech services in running their business. With their insufficient knowledge of FinTech products, many of these entrepreneurs end up not using them anymore because they are considered unprofitable.

Conclusion

Micro, Small and Medium Enterprises are a strategic force for a country. In addition, the potential of SMEs in of Surakarta with local products in the form of large halal food must be managed properly so that they can advance the national economy. It can be seen from the results of this research that FinTech and financial literacy can improve the SMEs performance and sustainability.

The government as a policy maker must increase the literacy level of SMEs actors through financial education programs. This is in order to increase demand for FinTech services in Indonesia in general and Surakarta City in particular. Such a program should not only be limited to accounting and bookkeeping knowledge but should also include access to finance and risk management.

The literature in the field of SMEs highlights the importance of social capital and business collaboration in networking to improve the SMEs

sustainability. One way is to adopt a new innovative technology in business processing, namely FinTech. In order for SMEs to maximize the role of FinTech in their business, it is hoped that entrepreneurs will not only join in but know very well about the ins and outs of the FinTech products they will use.

This research has several limitations that can be used as improvements for further research. First, the research was only conducted on halal food SMEs actors in Surakarta. Second In this study, the data analysis tool used is the data analysis method with PLS. Therefore, in further research, other methods can be used, such as AMOS or Lisrel. Third, this study only examines the influence of financial literacy, FinTech, SMEs performance and sustainability. Therefore, further research can use other variables that affect the SMEs performance and sustainability, such as integrated supply chains, innovation, and motivation.

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