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## The Influence of Financial Management on the Profitability of Msmes in Cirebon City

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**Abstract:** This study aims to analyze the influence of financial management on the profitability of Micro, Small, and Medium Enterprises (MSMEs) in Cirebon City during the 2020–2023 period. The research uses a quantitative approach with a survey method through a structured questionnaire involving 50 MSMEs from various business sectors, such as trade, services, culinary, and handicrafts. Financial management variables are measured through three main dimensions, namely cash flow recording, budget planning, and debt management, while profitability is measured based on net profit margin. The results of the analysis show that financial management has a significant positive influence on profitability, with a regression coefficient of 2.1 and a determination value ( $R^2$ ) of 0.68. The implementation of good cash flow recording is the most prominent dimension, while budget planning and debt management still require more attention. The culinary sector recorded the highest net profit margin of 20%, while the handicraft sector had the lowest profitability of 10% due to limitations in managing external funding. This research highlights the importance of increasing financial literacy and the use of technology to support MSMEs financial management. In addition, access to low-interest funding and intensive financial training from local governments is expected to help MSME actors improve their performance and competitiveness. This finding provides strategic insights for business actors and policymakers to support the sustainability of MSMEs, especially in Cirebon City.

**Keyword:** Financial, Management, MSME Financial Management

### INTRODUCTION

Micro, Small and Medium Enterprises (MSMEs) play a strategic role in the Indonesian economy, contributing more than 60% to Gross Domestic Product (GDP) and creating employment opportunities for 97% of the country's workforce (Ministry of Cooperatives and MSMEs, 2023). However, the COVID-19 pandemic has had a significant impact on this sector. Declining people's purchasing power, limited access to financing, and poor financial management are the main challenges faced by MSMEs in maintaining business continuity.

Cirebon City as one of the economic centers in the Pantura region of West Java is also not immune to this impact. The urban MSME sector, which is dominated by trade, services, and creative industries such as Trusmi batik, is facing a significant decline in revenue in the period 2020 to 2023 (Corliana & Mustika, 2024).

In the context of Cirebon City, the potential of MSMEs is very large, both as a driver of the local economy and a regional cultural icon. However, data from the Cirebon City Cooperative and MSME Office (2023) shows that more than 70% of MSME actors in the city still use manual financial recording systems. This leads to poor cash flow management and long-term business planning. This situation indicates a low level of financial literacy among MSME actors which is a major obstacle in maximizing profits and increasing the competitiveness of their businesses.

This study aims to identify the level of implementation of financial management in MSMEs in Cirebon City in the period 2020-2023, measure its impact on profits, and reveal the obstacles faced by business actors. Therefore, the results of this study are expected to provide practical suggestions to MSME actors to improve their financial performance, as well as provide input to local governments in formulating policies that support the development of MSMEs. In addition to providing academic contributions, this research is also expected to strengthen the literature on the relationship between financial management and MSME profits in Indonesia. The findings of this study will provide insights to business actors and stakeholders to optimize financial management strategies, so that MSMEs in Cirebon City can be more competitive in the local and national markets.

The novelty of this study lies in its specific focus on the influence of financial management on the profitability of MSMEs in Cirebon City during the period 2020-2023, which is one of the strategic cities in the Pantura region of West Java with diverse MSME characteristics, including the trade, service, and creative industries sectors such as Trusmi batik. Unlike previous studies that have focused more on MSMEs at the national level or in other large cities, this study offers a local perspective by analyzing the specific conditions of MSMEs in Cirebon City, including the unique challenges faced due to the COVID-19 pandemic. In addition, this study integrates a quantitative approach to measure the relationship between the implementation of financial management and profitability indicators, and highlights the practical obstacles experienced by MSME actors in managing finances. Therefore, this research is expected to fill the gap in the academic literature and provide relevant strategic recommendations for business actors and policymakers at the regional level.

Micro, Small, and Medium Enterprises (MSMEs) have been widely recognized as pivotal contributors to economic development, especially in developing countries like Indonesia. According to the Ministry of Cooperatives and MSMEs (2023), MSMEs contribute over 60% to Indonesia's GDP and absorb nearly 97% of the workforce. However, the sustainability and profitability of MSMEs face various challenges, including limited financial literacy and inadequate financial management practices.

Financial management plays a crucial role in enhancing MSME profitability and sustainability. Halim (2020) emphasizes that proper financial management, including cash flow recording, budget planning, and debt management, is fundamental for the operational success of MSMEs. The ability to systematically manage finances helps MSMEs avoid liquidity problems and optimize resource allocation.

Several studies have highlighted the positive impact of financial literacy and management on MSME performance. Andriani and Wijaya (2023) found that higher financial literacy levels correlate with improved business growth among MSMEs. Similarly, Gunawan and Sari (2023) stressed the importance of financial training programs in improving MSME financial performance and resilience during economic shocks.

The COVID-19 pandemic posed unprecedented challenges for MSMEs, affecting their income and operational continuity. Corliana and Mustika (2024) documented the significant decline in MSME revenue during the pandemic period, emphasizing the need for adaptive financial strategies. Suryani and Anggraeni (2023) further argued that MSMEs with structured financial management were better positioned to survive the economic crisis.

Digitalization has emerged as a supportive factor in improving financial management efficiency. Astuti and Prasetyo (2022) highlighted that MSMEs adopting digital financial tools experienced improved cash flow monitoring and reporting accuracy. However, the adoption rate remains uneven, influenced by digital literacy and capital availability (Irwanto, 2024).

The role of government policy and access to low-interest funding has also been acknowledged as significant in supporting MSME financial health. Tabroni, Wijaya, and Permana (2023) demonstrated that MSMEs with access to affordable financing and government support exhibited higher business resilience. Additionally, Dharma, Setiawan, and Pratama (2024) found that planned financial management combined with supportive policies contributes substantially to MSME sustainability.

Despite these findings, challenges such as managing debt and consistently applying budget planning persist, particularly in sectors heavily reliant on external financing like handicrafts (Basri, 2021). This indicates that while financial management is critical, contextual factors including sector-specific dynamics and macroeconomic conditions also influence profitability (Wibisono & Lestari, 2022).

In summary, the literature consistently underscores the importance of effective financial management in enhancing MSME profitability and sustainability. This study contributes to this body of knowledge by providing empirical evidence from Cirebon City, focusing on local MSME characteristics and pandemic-related challenges.

## **METHOD**

This study employed a quantitative approach to analyze the influence of financial management on the profitability of Micro, Small, and Medium Enterprises (MSMEs) in Cirebon City during the 2020–2023 period. A survey method was utilized, with a structured questionnaire serving as the primary instrument for data collection.

The population in this study consisted of all MSMEs registered with the Cirebon City Cooperative and MSME Office. A purposive sampling technique was used to ensure representative data, with the following inclusion criteria:

1. MSMEs that have been operating for a minimum of three years,
2. MSMEs that maintain basic financial records (manual or digital),
3. MSMEs that were actively conducting business during the pandemic and until 2023.

A total of 50 MSMEs were selected from various sectors such as trade, services, culinary, and handicrafts. This sample size is considered sufficient to reflect the diversity of MSMEs in Cirebon and to enable valid statistical analysis. Data collection was conducted through face-to-face interviews and questionnaire distribution directed at MSME owners or managers. The questionnaire included questions on financial management practices (e.g., cash flow tracking, budgeting, debt management) and profitability (e.g., net profit and profit margin).

## **Respondent Overview**

This research involved 50 MSMEs in Cirebon City, selected based on specific criteria: minimum three years of operation, presence of financial records, and active business operation during the 2020–2023 period. The respondents came from various sectors:

- a) Trade: 40%
- b) Services: 30%
- c) Culinary: 20%
- d) Handicrafts: 10%

In terms of age demographics, 65% of business owners were in the productive age range of 30–50 years, followed by 20% under 30 years old, and 15% over 50. Regarding education, 70% had a secondary school background, while 30% were university graduates, indicating a predominantly intermediate level of financial literacy.

Most of the MSMEs were family-owned businesses (70%), while the remaining 30% were partnerships managed with a more formal organizational structure. Trade respondents included retail outlets, distributors, and small-scale modern stores. Service sector participants included electronics repair, transportation, and tutoring services. The culinary sector, known for regional specialties such as *empal gentong* and *nasi lengko*, showed resilience during the pandemic. Meanwhile, the handicraft sector, particularly *Trusmi batik*, faced demand declines due to reduced tourism.

Regarding financial record-keeping:

- a) 60% used manual methods (e.g., notebooks),
- b) 40% had adopted digital tools or basic software.

Trade and service MSMEs were more likely to use digital systems, whereas culinary and handicraft businesses tended to rely on manual records, often due to differences in digital literacy and access to capital.

### Description of Research Variables

Two primary variables were examined in this study:

#### 1. Financial Management (Independent Variable)

Measured using a structured questionnaire, financial management included three main dimensions: cash flow recording, budget planning, and debt management. The average overall score across MSMEs was 3.5 on a 1–5 scale, indicating a moderate level of implementation.

- a) Cash Flow Recording: Highest average score of 4.0. Most MSMEs regularly tracked income and expenses, particularly in the trade and services sectors.
- b) Budget Planning: Average score of 3.5. Many MSMEs had begun to implement financial planning, especially in the culinary sector, where raw material planning is essential.
- c) Debt Management: Lowest score at 3.0, indicating challenges in managing obligations. Handicraft businesses scored the lowest due to reliance on high-interest credit with poor repayment plans.

#### 2. Profitability (Dependent Variable)

Measured using net profit margin, calculated from the respondents' financial data. The average profit margin across all MSMEs was 15%, with sectoral differences:

- a) Culinary: 20% – Strong performance due to adaptability and stable demand.
- b) Trade: 17% – Benefited from dynamic pricing strategies.
- c) Services: 14% – Impacted by fluctuating pandemic demand.
- d) Handicrafts: 10% – Affected by declining tourism-related sales.

## Preliminary Relationship Between Variables

Descriptive results indicate that MSMEs with a financial management score  $\geq 4.0$  achieved an average profit margin of 18%, while those scoring below 4.0 averaged only 12%. This suggests a positive relationship between financial management and profitability, warranting further investigation through regression analysis.

### 1. Descriptive Analysis

a) Financial Management: Mean = 3.5, Min = 2.8, Max = 4.6

b) Profit Margin: Mean = 15%, Min = 8%, Max = 25%

About 65% of MSMEs demonstrated moderate to good financial practices, while 35% remained below average, highlighting the need for targeted interventions.

### 2. Regression Assumption Testing

Prior to conducting regression analysis, the following assumptions were tested:

a) Normality Test: Kolmogorov–Smirnov test showed  $p = 0.081 > 0.05$ , indicating normal distribution.

b) Linearity Test: Significant linear relationship found ( $p < 0.05$ ) through scatterplot and ANOVA.

c) Multicollinearity: Not applicable (only one independent variable).

d) Heteroscedasticity Test: Glejser test showed  $p > 0.05$ , confirming homoscedasticity.

### 3. Simple Linear Regression Analysis

The simple linear regression model measured the effect of financial management on profitability:

#### Regression Equation:

$$Y = 5.2 + 2.1X$$

Where:

Y = Profitability (Net Profit Margin %)

X = Financial Management Score

The regression coefficient (2.1) indicates that a 1-point increase in financial management score is associated with a 2.1% increase in net profit margin.

Coefficient of Determination ( $R^2$ ):

$R^2 = 0.68$ , meaning 68% of the variation in profitability is explained by financial management. The remaining 32% is attributed to other factors (e.g., innovation, marketing, external economy).

Significance Testing:

p-value =  $0.000 < 0.05$ , confirming a statistically significant relationship.

t-value = 6.45, with  $\beta = 2.1$ , further validating the effect of financial management on profitability.

### 4. Interpretation of Statistical Results

The analysis confirms a positive and significant influence of financial management on MSME profitability in Cirebon City. Businesses with better financial practices report higher profit margins. These findings align with prior studies, including Apriliani et al. (2024), which emphasize that effective financial management is essential for MSME sustainability, particularly in the post-pandemic context.



## RESULT AND DISCUSSION

This study involved 50 MSMEs in Cirebon City, representing various business sectors including trade (40%), services (30%), culinary (20%), and handicrafts (10%). The respondents varied in age, education, and business forms, with most MSME owners aged between 30 and 50 years (65%) and having secondary education (70%). Family-owned businesses dominated the sample at 70%, with the remainder being partnerships.

### Financial Management Implementation

Financial management was assessed across three dimensions: cash flow recording, budget planning, and debt management. The overall average financial management score was 3.5 on a 1 to 5 scale, indicating a moderate level of implementation.

**Cash Flow Recording:** This dimension scored highest with an average of 4.0, showing that most MSMEs regularly record their daily income and expenses, particularly in the trade and service sectors.

**Budget Planning:** The average score was 3.5, suggesting that while many MSMEs have started budgeting practices, consistency remains an issue. The culinary sector demonstrated better budgeting efforts due to the need for raw material management. **Debt Management:** This dimension scored the lowest at 3.0, highlighting challenges in managing debts, especially for handicraft MSMEs relying on high-interest loans.

### Profitability Analysis

Profitability was measured using the net profit margin. The average net profit margin among MSMEs was 15%, with notable sectoral differences:

Culinary sector achieved the highest net profit margin at 20%, benefiting from relatively stable demand and adaptability during the pandemic. Trade sector followed with a 17% net profit margin, reflecting dynamic pricing and sales. Service sector recorded 14%, impacted by fluctuating demand amid economic uncertainty. Handicraft sector had the lowest profitability at 10%, affected by decreased tourism and market demand.

### Relationship Between Financial Management and Profitability

Descriptive analysis showed that MSMEs scoring above average ( $\geq 4.0$ ) in financial management achieved higher profitability, averaging 18%, compared to 12% for those below average. This suggests a positive correlation between effective financial management and profit margins.

Regression analysis confirmed this relationship with the model:

$$Y = 5.2 + 2.1X$$

Where:

Y = Profitability (% net profit margin)

X = Financial Management Score

The regression coefficient of 2.1 indicates that each one-unit increase in financial management score increases net profit margin by 2.1%. The model's coefficient of determination ( $R^2$ ) was 0.68, meaning 68% of the variation in profitability could be explained by financial management practices. The remaining 32% is attributed to other factors such as product innovation, marketing strategies, and economic conditions. Assumption tests verified the model's validity: normality ( $p = 0.081 > 0.05$ ), linearity ( $p < 0.05$ ), and absence of heteroscedasticity ( $p > 0.05$ ).

Good financial management, especially diligent cash flow recording, strongly supports MSME profitability. Budget planning and debt management require more attention to improve overall financial health. Sectoral differences highlight the impact of market conditions and industry-specific challenges. The handicraft sector remains vulnerable due to

reliance on high-interest loans and decreased demand. These findings emphasize the need for enhanced financial literacy programs, technology adoption, and targeted government support to improve MSME financial performance in Cirebon City.

The results of the study showed that the implementation of good financial management has a significant positive influence on the profitability of MSMEs in Cirebon City. This finding is in line with previous studies, such as those conducted by Dharma et al. (2024), which emphasized that planned cash flow management and good financial strategies contribute to business sustainability. In this study, the subvariable of recording cash flow is a major concern because most MSMEs have realized the importance of monitoring income and expenses in an effort to maintain operational stability and avoid potential losses.

However, debt management remains a significant challenge, especially for MSMEs in the handicraft sector. Reliance on external financing with high interest rates is one of the factors that increases their financial risk. In contrast to the handicraft sector, the culinary sector shows higher profitability. This is most likely due to relatively stable consumer demand even during the pandemic, making it a sector more resilient to economic fluctuations.

Statistical analysis shows a high coefficient of determination ( $R^2 = 0.68$ ), indicating that financial management plays an important role in determining the profitability level of MSMEs. However, the 32% of variability not explained by financial management indicates that there are other factors that also affect profitability, such as product innovation, marketing strategies, government policies, and macroeconomic conditions.

Overall, the results of this study emphasize the importance of improving financial literacy and the use of technology in supporting MSME business management in Cirebon City. Training programs that focus on cash flow recording, budget planning, and debt management can be strategic steps to overcome the various challenges faced by MSMEs. In addition, an active role of local governments is needed in providing access to low-interest financing, especially for business actors in the handicraft sector, to promote sustainability and local economic growth.

## CONCLUSION

This study emphasizes that good financial management has a significant influence on the profitability of MSMEs in Cirebon City during the period 2020–2023. Using a quantitative approach, it was found that the implementation of effective cash flow recording, budget planning, and debt management contributed positively to increasing net profit margins. MSMEs with high financial management scores tended to record larger net profit margins, which shows the importance of financial management in determining business success. However, although cash flow recording has been well implemented by the majority of MSMEs, budget planning and debt management aspects are still challenges, especially in the handicraft sector which relies heavily on high-interest financing.

Profitability between sectors shows diversity, with the culinary sector recording the highest net profit margin of 20% due to relatively stable market demand, even during the pandemic. In contrast, the handicraft sector has the lowest net profit margin of 10% due to a decline in market demand, especially in tourism-dependent products such as Trusmi batik. In addition, the analysis shows that although financial management explains 68% of the variability of profitability, there are other factors such as product innovation, marketing strategies, government policies, and macroeconomic conditions that also affect the performance of MSMEs.

This study recommends increasing financial literacy through intensive training that includes cash flow recording, budget planning, and debt management. In addition, local governments are expected to provide access to low-interest funding, especially for sectors that need more attention, such as handicrafts. With this support, MSMEs in Cirebon City are

expected to be able to increase their profitability and become more resilient to face economic challenges in the future.

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