

# The Effect of Financial and Taxation Literation on Competitive Advantages and Business Performance: A Case Study in Indonesia

Siti RESMI<sup>1</sup>, Reza Widhar PAHLEVI<sup>2</sup>, Frans SAYEKTI<sup>3</sup>

Received: November 05, 2020 Revised: December 30, 2020 Accepted: January 15, 2021

## Abstract

This study aims to determine the effect of financial literacy and taxation on competitive advantage, in order to determine the effect of financial literacy and taxation on the performance of MSMEs, and to determine the effect of competitive advantage on the performance of MSMEs. This study uses primary data through a questionnaire. The population is Creative MSME actors in DIY. Creative MSMEs in Yogyakarta were chosen because Yogyakarta is an area that is rich in traditional culture and various characters of its inhabitants, thus encouraging the development of the potential of Creative MSMEs. This research uses primary data sources on Creative MSMEs in Yogyakarta. The samples were determined by the proportional simple random sampling technique; taking a sample of 20% of the total Creative MSMEs in each district/city. The samples that deserve to be respondents in this study were 210 samples of Creative MSMEs actors in DIY. The statistical technique for analyzing data is the AMOS Structural Equation Modeling (SEM). The results showed that financial literacy had an effect on the competitive advantage and performance of MSMEs, tax literacy had an effect on competitive advantage, competitive advantage had an effect on the performance of MSMEs. However, tax literacy has no effect on the performance of MSMEs.

**Keywords:** Tax Literacy, Financial Literacy, Competitive Advantage, MSMEs Performance

**JEL Classification Code:** D9, E3, E6

## 1. Introduction

Market conditions are increasingly competitive and natural resources are increasingly limited so that breakthroughs are needed to create creative and innovative products. Yogyakarta Special Region is rich in traditional culture and various characters of its population are such that the creative industry has great potential to be developed. Creative MSMEs often experience delays in their development due to various

conventional problems that are not completely resolved. Strategic efforts are needed to improve the performance and sustainability of Creative MSMEs, including increasing financial and tax knowledge (literacy) to improve performance and competitive advantage.

Creative industry MSMEs tend to have a short-term orientation (when businesses are focused on the present or past and consider them more important than the future) in making business decisions. Therefore, strategic efforts are needed to increase the competitive advantage of MSMEs. One of the ways that can be done is by enriching the knowledge of MSMEs actors with financial and tax knowledge so that management and accountability can be better accounted for like a large company (Resmi et al., 2019). Micro, Small, and Medium-sized Enterprises (MSMEs), which play a vital role in every country's economy, are an increasingly pervasive and influential force in the business environment. Despite the compelling role of MSMEs in the country's socio-economic advancement, it has become ambitious for them to get access to a short-long term and flexible credit sources. Several justifications have been considered to explain the absence of access to credit and finance by MSMEs such as high-risk associated with MSMEs lending, information asymmetry

<sup>1</sup>First Author. Sekolah Tinggi Ilmu Manajemen YKPN Yogyakarta, Indonesia. Email: sitiresmiamp@yahoo.com

<sup>2</sup>Corresponding Author. Department of Management, Faculty of Business and Economics, Universitas Islam Indonesia, Indonesia [Postal Address: Kaliurang St No. Km. 14,5, Krawitan, Umbulmartani, Ngemplak, Sleman Regency, Yogyakarta 55584, Indonesia] Email: rezawidharp@gmail.com

<sup>3</sup>Department of Accounting Faculty of Economics, Universitas Teknologi Yogyakarta, Indonesia. Email: fran.sayekti@uty.ac.id

arising from MSMEs lending, the high administrative and transaction costs involved in MSMEs financing, and weak institutional and legal structures (Zarrouk et al., 2020).

Several studies have shown positive findings of the importance of financial literacy and taxation for MSMEs. If MSMEs have a good understanding of finance and taxation, it will generate business growth (Clark, 2014; Xu & Zia, 2012; Dunska & Kravinskis, 2016; Bayrakdaroglu & Şanb, 2014) and competitive advantage (Bayrakdaroglu & Şanb, 2014; Demirbag et al., 2013; Nunoo & Andoh, 2012). According to Nagel et al. (2018), decision-makers are more interested in developing and adopting steps to increase the creation of new businesses and help improve performance. Gangl et al. (2014) conducted a field experiment on tax compliance, focusing on newly founded firms. As a novelty, the effect of tax authorities' supervision on timely tax payments is examined. Interestingly, results show no positive overall effect of close supervision on tax compliance.

Nunoo and Andoh (2012) found that better financial literacy can provide benefits for MSMEs in increasing demand for financial services, more savings, better risk management, increased intermediation, and accelerating financial development. Drexler et al. (2010) suggested that training and simpler practical rules can result in economically meaningful improvements for MSMEs. Training in accordance with basic financial needs is more appropriate and efficient for economic development and MSMEs business growth. Companies including MSMEs can rely on dynamic capabilities such as financial literacy, which can help convert resources into various goals such as creation, expansion, and modification of resources (Adomako et al., 2016). This study explains the relationship between financial literacy and MSMEs' business growth. Understanding of the maximum financial literacy tends to increase the growth of MSMEs business.

The improved performance of MSMEs is also crucial for the growth of the national industry, especially in the era of global competition. Thus, MSMEs must continually strive to improve their competencies to win the competition (Tjahjadi et al., 2020). Competitive advantage is the heart of performance to meet competition. Competitive advantage as the profit strategy of companies collaborates to create more competitive advantages in their market. Competitive advantage ultimately grows from the value or benefits that the company can create for its buyers, more than the costs that the company must incur to make it. Currently, the competitive situation is getting tougher; consumers are increasingly critical in deciding to buy a product or service. Competitive advantage will also be able to help improve the performance of MSMEs (Srikalimah et al., 2020).

Simanjuntak and Mukhlis (2012) explained that not all taxpayers, including MSMEs, can understand the rules and procedures for implementing correct tax reporting due to a

lack of understanding of tax regulations. Most MSMEs feel that the taxation system is unfair because MSMEs have to pay the same amount as large companies so that the Government needs to simplify or create a taxation system suitable for MSMEs (Ponorică & Al-Saedi, 2015). Some studies found positive results on the importance of MSMEs in financial and taxation literacy. MSMEs that have an understanding of finance and taxation both increase business growth and competitive advantage recommended the importance of financial literacy for MSME managers through financial training. Managers with higher financial literacy levels indicate greater participation in financial markets. Previous studies found that understanding taxation literacy was closely related to the growth of the company (Sandra et al., 2019; Ningrum et al., 2019).

Based on the gaps in the findings of previous studies, research will be carried out to fill the gaps by integrating the relationship pattern of business growth to improve performance in Creative MSMEs in DIY through financial literacy and taxation. This study aims to analyze the conditions of DIY Creative MSMEs related to the use of financial literacy and taxation as a strategy to achieve competitive advantage and performance.

## **2. Literature Review and Hypothesis Development**

### **2.1. Tax Literacy and Competitive Advantage**

MSMEs have unique characteristics to face changes in the business environment and stakeholders. This business sector tends to cooperate more than compete in relationships between business actors (Kumar et al., 2012). Knowledge sharing to MSMEs occurs not only from the government, academia, or big business, but knowledge sharing between MSMEs can be the main key to the success of MSMEs in developing in the era of global trade. It is very important to realize that intra-MSMEs cooperation is needed to achieve complementary capabilities. Simanjuntak and Mukhlis (2012) explained that not all taxpayers, including MSMEs, can understand the rules and procedures for implementing correct tax reporting due to a lack of understanding of tax regulations. Most MSMEs feel that the taxation system is unfair because MSMEs have to pay the same amount as large companies as such the government needs to simplify or create a taxation system that is suitable for MSMEs so that MSMEs will be able to compete (Ponorică & Al-Saedi, 2015).

### **2.2. Tax Literacy and Performance**

According to Dartini and Jati (2016), the higher the understanding of taxpayers' accounting, the higher the willingness of taxpayers to comply with their tax

compliance. Sumianto and Kurniawan (2015) stated that the understanding of accounting and taxation has a positive effect on taxpayer compliance. With a proper accounting application, financial reports can be compiled accurately for calculating the taxes owed by the company. The accounting application will provide many benefits to existing businesses. The accounting application automates calculations and also administrative procedures. Salmah et al. (2015) stated that more a person masters accounting, the better he or she will be in handling various financial aspects in daily activities, especially in business. Rahayu (2017) stated that if the level of accuracy in calculating the tax payable by the company is higher, the accuracy of depositing, filing, and submitting returns and carrying out tax obligations is higher, and the level of compliance of taxpayers is higher, then the performance of MSMEs will be better too.

### **2.3. Financial Literacy and Competitive Advantage**

The level of financial literacy from an individual or family point of view can have an impact on the ability to have long-term savings that are used to own assets (such as land or a house), and the fulfillment of higher education and old age (retirement). Amonhaemanon and Sitta (2020) explained that financial literacy influenced the financial attitude of all generations. With the right financial attitude, people of all generations would be equipped with a higher level of financial capability.

Ineffective money management will have an impact on the family financial crisis (Braunstein & Welch, 2002). These findings can also be adapted for companies. The level of MSMEs actors' financial literacy is important in business sustainability. The success of MSMEs depends on its ability to manage financial issues. The higher the level of one's financial literacy, the better his/her financial management would be. The financial literacy level of MSMEs actors has an effect on performance and business continuity. In the business and entrepreneurship literature, a lack of knowledge and access to financial resources has been linked to a company's inability to achieve its goals (Beck et al., 2005; Hutchinson & Xavier, 2006; Malo & Norus, 2009; Coad & Tamvada, 2012). Entrepreneurial orientation, environmental characteristics, firm resources, and managers' attitudes directly and/or indirectly influence the growth of small businesses (Wiklund & Shepherd, 2003).

### **2.4. Financial Literacy and Performance**

Several theoretical studies and researchers explain that the maximum understanding of financial literacy tends to increase the business growth of MSMEs. Muraga (2015) in his research examined to know if the gains of the financial

literacy training can outweigh the costs of undertaking the training, which would benefit the government and other stakeholders. He used debt management, budgeting, bank services, and accounting or recording variables because financial literacy variables have a positive relationship with business performance. He established that there was a positive correlation between the dependent variable (performance of youth-led enterprises) and the independent variables (budgeting literacy, debt management literacy, banking services literacy, and record-keeping literacy) but in varying magnitudes. Debt management literacy affected the performance of youth-led enterprises in the highest proportion while record keeping literacy least affected the performance of youth-led enterprises as per this study. Aribawa (2016) found that financial literacy affects the performance and sustainability of creative MSMEs. Lusimbo (2016) stated that managers with low financial literacy recorded lower business growth, even zero. The findings of Bayrakdarođlua and Şanb (2014) explained that MSMEs in developing countries, especially Turkey, show an increase in the level of financial literacy of managers with financial training.

### **2.5. Competitive Advantage and Performance**

In global competition, companies are expected to be able to provide more added value to the goods/services offered either in quality (better) or efficiency (more efficient) than competitors. This is specifically difficult for MSMEs to do, due to the lack of management capabilities and limited working capital management (Ali, 2003). One of the keys to the success of MSMEs is to plan and build a sustainable competitive advantage. That the right answer to survival rests upon (a) the entrepreneurs' personality traits and skills that affect the market and entrepreneurial orientations of SMEs, (b) the adoption of such orientations that keep impacting the firms' performance, and finally (c) the implementation of strategy relevant to reaching higher quality standards for products and services, combined with tactics relevant to downsizing, marketing actions, extroversion, and financial management (Kottika et al., 2020; Naidoo, 2010). Core competencies are a series of unique abilities developed by companies in the main areas of a business, such as quality, innovation, and service to consumers (Petzold et al., 2019). The competitive advantage that can be owned by MSMEs is expected to increase support for the performance of MSMEs.

The performance of MSMEs must get the best and maximum support from the internal and external environment. Increasing the internal environment, such as capital, human resources (HR) and the adoption of information technology must be done immediately. The Korean government has placed greater emphasis on setting economic policies to establish MSMEs since the Asian financial crisis in 1997.

However, the major goal of these policies has changed from supporting MSMEs in general to facilitating the development and growth of MSMEs and startups with frontier technologies. South Korean policy continues to enable the easy identification and support of MSMEs and startups that pursue cutting-edge technology, and these policies fostering MSMEs have been important to South Korea's economic growth (Binh et al., 2020). Support from the government, as an external environment, will be very decisive for the growth and development of MSMEs with these limitations (Bourletidis & Triantafyllopoulos, 2014). Referring to the description of the research conducted, the following hypotheses are derived:

**H1:** *There is a significant relationship between Tax Literacy and Competitive Advantage*

**H2:** *There is a significant relationship between Tax Literacy and Performance*

**H3:** *There is a significant relationship between Financial Literacy and Competitive Advantage*

**H4:** *There is a significant relationship between Financial Literacy and Performance*

**H5:** *There is a significant relationship between Competitive Advantage and Performance*

### 3. Research Methods

This study uses primary data through a questionnaire to strengthening the research results. The population is Creative MSME actors in DIY. Creative MSMEs in Yogyakarta were chosen because Yogyakarta is an area that is rich in traditional culture and various characters of its inhabitants, thus encouraging the development of the potential of Creative MSMEs. This research uses primary data sources on Creative MSMEs in Yogyakarta. The samples were determined by a proportional simple random sampling technique, taking a sample of 20% of the total Creative MSMEs in each district/city. DIY has four districts, namely Sleman Regency, Kulonprogo Regency, Gunungkidul Regency, Bantul Regency, and one city namely Yogyakarta City. However, the samples that deserve to be respondents in this study were 210 samples of Creative MSMEs actors in DIY. The statistical technique for analyzing data is the AMOS Structural Equation Modeling (SME).

### 4. Results

The results of the validity test based on calculations can be seen in the following table:

**Table 1:** Validity and Reliability Test Results

Variable	Indicator	Pearson Correlation	Significance	Result	Cronbach's Alpha
Tax Literacy	Item 1	0.573	0.000	Item Valid	<b>0.838</b>
	Item 2	0.509	0.000	Item Valid	
	Item 3	0.501	0.000	Item Valid	
	Item 4	0.648	0.000	Item Valid	
	Item 5	0.642	0.000	Item Valid	
Financial Literacy	Item 1	0.511	0.000	Item Valid	<b>0.788</b>
	Item 2	0.547	0.000	Item Valid	
	Item 3	0.486	0.000	Item Valid	
	Item 4	0.552	0.000	Item Valid	
	Item 5	0.314	0.000	Item Valid	
	Item 6	0.679	0.000	Item Valid	
	Item 7	0.814	0.003	Item Valid	
	Item 8	0.739	0.001	Item Valid	
Competitive Advantage	Item 1	0.702	0.000	Item Valid	<b>0.926</b>
	Item 2	0.788	0.000	Item Valid	
	Item 3	0.831	0.000	Item Valid	
	Item 4	0.802	0.000	Item Valid	
	Item 5	0.788	0.000	Item Valid	
	Item 6	0.798	0.000	Item Valid	
Performance MSMEs	Item 1	0.311	0.000	Item Valid	<b>0.835</b>
	Item 2	0.756	0.000	Item Valid	
	Item 3	0.803	0.000	Item Valid	
	Item 4	0.804	0.000	Item Valid	
	Item 5	0.813	0.000	Item Valid	

\*Significance at a 5% level.

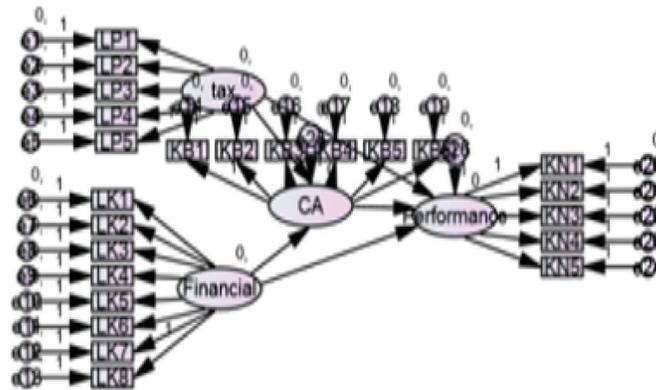


Figure 1: Structural Equation Model (SME) Test Results

Table 2: Model Feasibility Test Results

Criteria	Cut of Value	Result	Information
Chi-Square	37.65	102.377	Fit
Probability	≥ 0.05	0.073	Fit
CMIN/DF	≤ 2.00	1.222	Fit
GFI	≥ 0.90	0.908	Fit
AGFI	≥ 0.90	0.910	Fit
TLI	≥ 0.95	0.962	Fit
CFI	≥ 0.95	0.977	Fit
RMSEA	≤ 0.08	0.065	Fit

Table 3: Hypothesis Testing Results

		Standardized direct effect	C.R.	p-value	Result
<b>Model 1: <math>ZY_1 = \gamma_{1.1}X_1 + \gamma_{1.2}X_2 + \epsilon_1</math></b>					
Tax Literacy	Competitive Advantage	0.061	2.283	0.007	Significant
Financial Literacy	Competitive Advantage	0.623	9.526	0.000	Significant
<b>Model 2: <math>ZY_2 = \gamma_{2.1}Y_1 + \gamma_{2.2}X_1 + \gamma_{2.3}X_2 + \epsilon_2</math></b>					
Financial Literacy	Performance	0.040	0.248	0.804	Not Significant
Tax Literacy	Performance	0.375	4.189	0.000	Significant
Competitive Advantage	Performance	0.338	3.533	0.000	Significant

Table 4: Effect of Total Between Independent Variables on Dependent Variables

Direct Effect	Total Effect
$X_1 \rightarrow Y_1 \rightarrow Y_2$	0.060
$X_2 \rightarrow Y_1 \rightarrow Y_2$	0.585

Based on the table above, the calculated values of all questionnaire items including research variables, namely tax literacy, financial literacy, competitive advantage, and performance show a probability value (sig) <0.05. So, the questionnaires of the research variables are all valid, and the Cronbach Alpha value obtained from all results including the

research variables shows greater than the value of 0.6. which means ‘reliable’. Furthermore, the results of the Structural Equation Model (SEM) on the structural equation are shown in the following figure:

Furthermore, the model that has been presented in the form of a path diagram is then expressed in structural equations that state the specification of the measurement model. Model testing in the SEM is carried out by two tests, namely the model fit test and the causality significance test through the regression coefficient test. Testing the fit model using various criteria, namely Chi-square/degree of freedom (CMIN / DF), Adjusted Goodness-Of-Fit Index (AGFI), Goodness-Of-Fit Index (GFI), Comparative Fit Index (CFI), Tucker Lewis Index (TLI), and Root Mean Square Error Approximation (RMSEA).

The results of the feasibility test of the research model show that all goodness of fit criteria is acceptable. This also illustrates that almost all of the instructions in the model have met the recommended value. Thus, the final model developed is fit with the data. Overall the model can be accepted and the next step is to analyze the estimated parameter.

In accordance with the research model, that the final objective of the analysis is to find evidence of the total value of the coefficient of influence because in the model it is known that the independent variable affects the dependent variable through the intervening variable. This means that the variables of financial literacy and taxation cannot directly affect the performance variable except through the competitive advantage variable.

The following table provides brief information on the coefficient (effect) values of the total effect of the variables of financial literacy and tax literacy on the performance variable through the competitive advantage variable.

The total effect, direct effect, an indirect effect between the Tax Literacy ( $X_1$ ), Financial Literacy ( $X_2$ ) Competitive Advantage ( $Y_1$ ), and Performance ( $Y_2$ ) variables can be presented in the model in the following table:

## 5. Discussion

### 5.1. The Effect of Tax Literacy on Competitive Advantage

The results showed that there was a significant relationship between Tax Literacy and Competitive Advantage, the

standardized direct effect value was 0.061 and a significance value of 0.007, and a CR value of 2.283. So, it can be concluded that the first hypothesis is proven. MSMEs have unique characteristics to face changes in the business environment and stakeholders. This business sector tends to cooperate more than compete in relationships between business actors (Kumar et al., 2012). Knowledge sharing to MSMEs occurs not only from the government, academia, or big business, but knowledge sharing between MSMEs can be the main key to the success of MSMEs in developing in the era of global trade. It is very important to realize that intra-UMKM cooperation is needed to achieve complementary capabilities. Simanjuntak and Mukhlis (2012) explained that not all taxpayers, including MSMEs, can understand the rules and procedures for implementing correct tax reporting due to a lack of understanding of tax regulations. Most MSMEs feel that the taxation system is unfair because MSMEs have to pay the same amount as large companies as such the Government needs to simplify or create a taxation system that is suitable for MSMEs so that MSMEs will be able to compete (Ponorică & Al-Saedi, 2015).

### 5.2. The Effect of Tax Literacy on Performance

The results showed that there was a significant relationship between Tax Literacy and Performance, the standardized direct effect value was 0.040 and a significance value was 0.804, and a CR value of 0.249. So, it can be concluded that the second hypothesis is not proven. Simanjuntak and Mukhlis (2012) explained that not all taxpayers, including MSMEs, can understand the rules and procedures for implementing correct tax reporting due to a lack of understanding of tax regulations. Most SMEs feel that the taxation system is unfair because MSMEs have to pay the same amount as large companies as such the Government needs to simplify or create a taxation system suitable for MSMEs (Ponorică & Al-Saedi, 2015). Some studies found positive results on the importance of MSMEs in financial and taxation literacy. MSMEs that have an understanding of finance and taxation both increase business growth and competitive advantage recommended the importance of financial literacy for MSME managers through financial training. Managers with higher financial literacy levels indicate greater participation in financial markets. Previous studies found that understanding taxation literacy was closely related to the growth of the company (Sandra et al., 2019; Ningrum et al., 2019).

**Table 5:** Total Effect, Direct Effect, and Indirect Effect Between Exogenous and Endogenous Variables

	Direct Effect		Indirect Effect	Total Effect
	Competitive Advantage ( $Y_1$ )	Performance ( $Y_2$ )	Performance ( $Y_2$ )	Performance ( $Y_2$ )
Tax Literacy ( $X_1$ )	0.061	0.040	0.021	0.060
Financial Literacy ( $X_2$ )	0.623	0.375	0.211	0.585
Competitive Advantage ( $Y_1$ )	–	0.338	–	0.338

### **5.3. The Effect of Financial Literacy on Competitive Advantage**

The results showed that there was a significant relationship between Financial Literacy and Competitive Advantage, the standardized direct effect was 0.623 and a significance value of 0.000, and a CR value of 9,526. So, it can be concluded that the third hypothesis is proven. The level of financial literacy from an individual or family point of view can have an impact on the ability to have long-term savings that are used to own assets (such as land or a house), and fulfillment of higher education and old age (retirement). Ineffective money management will have an impact on the family financial crisis (Braunstein & Welch, 2002). These findings can also be adapted for companies. In this case, MSMEs that have good financial literacy will be able to achieve their company goals, have a business development orientation and be able to survive in difficult economic conditions. In the business and entrepreneurship literature, a lack of knowledge and access to financial resources has been linked to a company's inability to achieve its goals (Beck et al., 2005; Hutchinson & Xavier, 2006; Malo & Norus, 2009; Coad & Tamvada, 2012). Entrepreneurial orientation, environmental characteristics, firm resources, and managers' attitudes directly and/or indirectly influence the growth of small businesses (Wiklund & Shepherd, 2003).

### **5.4. The Effect of Financial Literacy on the Performance of MSMEs**

The results showed that there was a significant relationship between Financial Literacy and Performance of MSMEs, the standardized direct effect was 0.375 and a significance value of 0.000 and a CR value of 4.189. So, it can be concluded that the fourth hypothesis is proven. Several theoretical studies and researches explained that the maximum understanding of financial literacy tends to increase the business growth of MSMEs. Muraga (2015) in his research used debt management, budgeting, bank services, and accounting or recording variables because financial literacy variables have a positive relationship with business performance. Aribawa (2016) found that financial literacy affects the performance and sustainability of creative MSMEs. Lusimbo (2016) stated that managers with low financial literacy recorded lower business growth, even zero. The findings of Bayrakdaroğlu and Şanb (2014) explained that MSMEs in developing countries, especially Turkey, show an increase in the level of financial literacy of managers with financial training.

### **5.5. The Effect of Competitive Advantage on the Performance of MSMEs**

The results showed that there was a significant relationship between Competitive Advantage and Performance of

MSMEs, the Standardized direct effect value was 0.338 and the significance value was 0.000 and the CR value was 3.533. So it can be concluded that the fifth hypothesis is proven. One of the keys to the success of MSMEs is to plan and build a sustainable competitive advantage. One of the keys to the success of MSMEs is to plan and build a sustainable competitive advantage. That the right answer to survival rests upon (a) the entrepreneurs' personality traits and skills that affect the market and entrepreneurial orientations of SMEs, (b) the adoption of such orientations that keep impacting the firms' performance, and finally (c) the implementation of strategy relevant to reaching higher quality standards for products and services, combined with tactics relevant to downsizing, marketing actions, extroversion, and financial management (Kottika et al., 2020; Naidoo, 2010). Core competencies are a series of unique abilities developed by companies in the main areas of a business, such as quality, innovation, and service to consumers (Petzold et al., 2019). The competitive advantage that can be owned by MSMEs is expected to increase support for the performance of MSMEs. The performance of MSMEs must get the best and maximum support from the internal and external environment. Increasing the internal environment, such as capital, human resources (HR) and the adoption of information technology must be done immediately. Support from the government, as an external environment, will be very decisive for the growth and development of MSMEs with these limitations (Bourletidis & Triantafyllopoulos, 2014).

## **6. Conclusion**

Based on the results of the analysis and discussion, it can be concluded that financial literacy affects the competitive advantage and performance of MSMEs, tax literacy affects competitive advantage, competitive advantage affects the performance of MSMEs. However, tax literacy has no effect on the performance of MSMEs. The limitations of this study can be used as a reference for further research so that better results will be obtained, namely that this study has not classified the MSMEs based on business scale and type of business. Based on these conclusions and limitations, to obtain better research results in future research, the suggestions that need to be considered include classifying the scale of MSMEs into small- and large-scale MSMEs and classifying them based on the types of MSMEs. Thus, it is hoped that the results of the research can be compared how the effect is based on the scale of the business and can focus on MSME E-Commerce so that it can better explain the effect of the taxation application and financial literacy of MSMEs on the performance and competitive advantage of E-Commerce MSMEs.

The success of this research requires a lot of guidance and assistance from many parties and researchers are grateful to

be able to use assistance in completing research. Researchers are very grateful to all parties whom they cannot mention one by one and who have helped in completing this research. Researchers would like to especially thank the Directorate of Research and Community Service, Directorate General of Research and Development, Ministry of Research, Technology and Higher Education for providing financial assistance during the research outcome process. Finally, the researcher would like to thank the parties involved in completing this research.

## References

- Adomako, S., Danso, A., & Damoah, J. O. (2016). The moderating influence of financial literacy on the relationship between access to finance and firm growth in Ghana. *Venture Capital, 18*(1), 43–61. <https://doi.org/10.1080/13691066.2015.1079952>
- Ali, I. (2003). *A performance measurement framework for a small and medium enterprise*. Doctoral Dissertation. University of Alberta. [http://uir.unisa.ac.za/bitstream/handle/10500/23244/thesis\\_mabhungu\\_i.pdf?sequence=1&isAllowed=y](http://uir.unisa.ac.za/bitstream/handle/10500/23244/thesis_mabhungu_i.pdf?sequence=1&isAllowed=y)
- Amonhaemanon, D., & Sitta, P. V. (2020). From financial literacy to financial capability: A preliminary study of different generations in the informal labor market. *Journal of Asian Finance, Economics, and Business, 7*(12), 355–363. <https://doi.org/10.13106/jafeb.2020.vol7.no12.355>
- Aribawa, D. (2016). The effect of financial literacy on the performance and sustainability of MSMEs in Central Java. *Journal of Business Strategy, 20*(1), 1–13.
- Bayrakdaroglu, A., & Şan F. B. (2014). Financial literacy training as a strategic management tool among small-and medium-sized businesses operating in Turkey. *Procedia – Social and Behavioral Sciences, 150*, 148–155. <https://doi.org/10.1016/j.sbspro.2014.09.019>
- Beck, T. A., Demirguc-Kunt, A., & Maksimovic, V. (2005). Financial and legal constraints to growth: Does firm size matter? *The Journal of Finance, 60*(1), 137–177. <https://doi.org/10.1111/j.1540-6261.2005.00727.x>
- Binh, K. B., Jhang, H., Park, D., & Ryu, D. (2020). Capital markets for small- and medium-sized enterprises and startups in Korea. *Journal of Asian Finance, Economics, and Business, 7*(12), 195–210. <https://doi.org/10.13106/jafeb.2020.vol7.no12.195>
- Bourletidis, K., & Triantafyllopoulos, Y. (2014). SMEs survival in the time of crisis strategies and tactics and commercial success stories. *Procedia Social and Behavioral Science, 16*(2), 639–644. <https://doi.org/10.1016/j.sbspro.2014.07.092>
- Braunstein, S., & Welch, C. (2002). *Financial literacy: An overview of the practice, research, and policy*. Washington DC: Federal Reserve Bulletin
- Clark, G. L. (2014). Roepke lecture in economic geography: Financial literacy in context. *Economic Geography, 9*(1), 1–23. <https://doi.org/10.1111/ecge.12029>
- Coad, A., & Tamvada, J. P. (2012). Firm growth and barriers to growth among small firms in India. *Small Business Economics, 39*, 383–400. <https://doi.org/10.1007/s11187-011-9318-7>
- Dartini, G., & Jati, I. (2016). Understanding of accounting, transparency, and accountability in corporate taxpayer compliance. *E-Jurnal Akuntansi Universitas Udayana, 17*(3), 2447–2473. <https://doi.org/10.33019/accounting.v1i2.8>
- Demirbag, M., Frecknall-Hughes, J., Glaister, K. W., & Tatoglu, E. (2013). Ethics and taxation: A Cross-national comparison of the UK and Turkish firms. *International Business Review, 22*(1), 100–111. <https://doi.org/10.1016/j.ibusrev.2012.02.007>
- Drexler, A., Greg, F., & Antoinette, S. (2010). *Keeping it simple: Financial literacy and rules of thumb* (CEPR Discussion Paper, No. DP7994). Center for Economic Policy Research. [https://cepr.org/active/publications/discussion\\_papers/dp.php?dpno=7994](https://cepr.org/active/publications/discussion_papers/dp.php?dpno=7994)
- Dunska, M., & Kravinskis, K. (2016). Impact of financial literacy on domestic economic activity in the Baltic states. Contemporary issues in finance: Current challenges from across Europe. *Contemporary Studies in Economic and Financial Analysis, 98*, 1–19. <https://doi.org/10.1108/S1569375920160000098001>
- Gangl, K., Torgler, B., Kirchler, E., & Hofmann, E. (2014). Effects of supervision on tax compliance: Evidence from a field experiment in Austria. *Economics Letters, 123*(3), 378–382. <https://doi.org/10.1016/j.econlet.2014.03.027>
- Hutchinson, J., & Xavier, A. (2006). Comparing the impact of credit constraints on the growth of SMEs in a transition country with an established market economy. *Small Business Economics, 27*(2/3), 169–179. <https://doi.org/10.1007/s11187-005-4412-3>
- Kottika, E., Ayşegül Ö., Pernille, R., Ioannis, G. Theodorakis, K. K., Konstantinos, G. K., & Vlasis, S. (2020). We survived this! what managers could learn from SMEs those who successfully navigated the Greek economic crisis. *Industrial Marketing Management, 88*(2), 352–365. <https://doi.org/10.1016/j.indmarman.2020.05.021>
- Kumar, K., Boesso, G., Favotto, F., & Menini, A. (2012). Strategic orientation, innovation patterns, and performances of SMEs and large companies. *Journal of Small Business and Enterprise Development, 19*(1), 132–145. <https://doi.org/10.1108/14626001211196442>
- Lusimbo, E. N., & Muturi, W. (2016). Financial literacy and the growth of small enterprises in Kenya: A case of Kakamega Central Sub-County, Kenya. *International Journal of Economics, Commerce, And Management, 4*(6).
- Malo, S., & J. Norus. (2009). Growth dynamics of dedicated biotechnology firms in transition economies. Evidence from the Baltic countries and Poland. *Entrepreneurship and Regional Development, 21*(5), 481–502.
- Muraga, K. P., & John, N. (2015). Effects of financial literacy on the performance of youth-led enterprises: A case of equity group foundation training program in Kiambu County. *International Journal of Social Sciences Management and Entrepreneurship, 2*(1), 218–231.

- Nagel, H., Laura, R. H., Mirjam, V. P., & Sjoerd, G. (2018). The effect of a tax training program on tax compliance and business outcomes of starting entrepreneurs: Evidence from a field experiment. *Journal of Business Venturing*, 34(2), 261–283. <https://doi.org/10.1016/j.jbusvent.2018.10.006>.
- Naidoo, V. (2010). Firm survival through a crisis: The influence of market orientation, marketing innovation, and business strategy. *Industrial Marketing Management*, 39(8), 1311–1320.
- Ningrum, E. P., Tutiek, Y., Nurul, R., Widi, W., & Novita W. S. (2019). Simple book-keeping training, tax dissemination and management for MSMEs. *Jurnal Pengabdian Kepada Masyarakat*, 2(2), 126–130
- Nunoo, J., & Andoh, F. K. (2012). Sustaining small and medium enterprises through financial service utilization: Does financial literacy matter? In: *Proceedings, Paper prepared for presentation at the Agricultural & Applied Economics Association's 2012 AAEE Annual Meeting*, Seattle, Washington, August 12–14, 2012 (pp. 1–28). <https://doi.org/10.22004/ag.econ.123418>
- Petzold, S., Barbat, V., Pons, F., & Zins, M. (2019). Impact of responsive and proactive market orientation on SME performance: The moderating role of economic crisis perception. *Canadian Journal of Administrative Sciences*, 36(4), 459–472. <https://doi.org/10.1002/cjas.1514>
- Ponoričă, A. G., & Al-Saedi, A. H. J. (2015). The importance of taxation systems for SME tax compliance. *Proceedings of the International Management Conference, Faculty of Management, Academy of Economic Studies, Bucharest, Romania*, 9(1), 129–136. <http://conferinta.management.ase.ro/archives/2015/pdf/14.pdf>.
- Rahayu, N. (2017). The influence of tax knowledge, firmness of tax sanctions, and tax amnesty on taxpayer compliance. *Akuntansi Dewantara*, 1(2), 213–30. <https://doi.org/10.24090/MABSYA.V1I2.3465>.
- Resmi, S., Reza W. P., & Fran, S. (2019). The effect of financial and taxation literacy on sustainable competitive advantage through business growth: A study of creative MSMEs in the special region of Yogyakarta, Indonesia. *International Journal of Entrepreneurship*, 23(4), 1–9.
- Salmah, S. (2018). The influence of taxpayer knowledge and awareness of taxpayer compliance in paying land and building taxes. *Jurnal Ekuitas*, 2(1), 151–186.
- Sandra, A., Hanif, R. I. A., & Prima A. (2019). UMKM tax assistance: Problems and solutions. *Academics in Action Journal*, 1(1), 1–7. <https://doi.org/10.33021/aia.v1i1.737>
- Simanjuntak, T. H., & Imam, M. (2012). *Economic dimensions of taxation in economic development*. Jakarta, Indonesia: Raih Asa Sukses
- Srikalimah, S., Wardana, L. W., Ambarwati, D., Sholihin, U., Shobirin, R. A., Fajariah, N., & Wibowo, A. (2020). Do creativity and intellectual capital matter for SMEs sustainability? The role of competitive advantage. *Journal of Asian Finance, Economics, and Business*, 7(12), 397–408. <https://doi.org/10.13106/jafeb.2020.vol7.no12.397>
- Sumianto, S., & Kurniawan, C. H. (2015). Effecting understanding of accounting and taxation provisions and transparency on tax compliance of personnel at SMEs in Yogyakarta. *Modus Journals*, 27(1), 41–51. <https://doi.org/10.24002/modus.v27i1.567>
- Tjahjadi, B., Soewarno, N., & Gunawan, G. M. (2020). Effect of information capital readiness on business performance in Indonesian MSMEs: Does online market orientation matter? *Journal of Asian Finance, Economics, and Business*, 7(12), 267–274. <https://doi.org/10.13106/jafeb.2020.vol7.no12.267>
- Wiklund, J. H. P., & Dean A. S. (2009). Building an integrative model of small business growth. *Small Business Economics*, 32, 351–374. <https://doi.org/10.1007/s11187-007-9084-8>
- Xu, L., & Zia, B. (2012). *Financial literacy around the world: An overview of the evidence with practical suggestions for the way forward* (Working Paper). Policy Research Working Paper. Washington, DC: World Bank. <https://doi.org/10.1596/1813-9450-6107>
- Zarrook, H., Sherif, M., Galloway, L., & Ghak, T. (2020). Entrepreneurial orientation, access to financial resources, and SMEs' business performance: The case of the United Arab Emirates. *Journal of Asian Finance, Economics, and Business*, 7(12), 465–474. <https://doi.org/10.13106/jafeb.2020.vol7.no12.465>