

The Influence of Financial Management Quality, Product Innovation, and Ease of Digital Payment on the Performance of Food and Beverage MSMEs in Ponorogo Regency

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Abstract

This study aims to analyze the influence of financial management quality, product innovation, and digital payment on the performance of food and beverage MSMEs in Ponorogo Regency. The research uses a quantitative approach with purposive sampling involving 123 MSME owners who utilize digital payment systems. Data were collected through questionnaires and analyzed using SmartPLS 3.29. The results show that financial management quality has a significant positive effect on MSME performance, supporting operational efficiency and financial stability. Product innovation has no significant effect, indicating that innovations are not yet aligned with market demands or supported by effective marketing strategies. Digital payment has a significant positive effect, improving transaction efficiency, customer satisfaction, and business growth. These findings highlight the importance of strengthening financial management and optimizing digital payment adoption to enhance MSME performance.

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INTRODUCTION

MSMEs (micro, small, and medium enterprises) play a significant role in Indonesia's economic conditions, especially in the food and beverage sector. People have income because these businesses help absorb labor. When people are involved in MSMEs, they directly contribute to national development. (Sains et al., 2021) However, Food and Beverage MSMEs face many problems, such as intense competition, lack of attention to financial management, changes in consumer styles, and limited access to technology and payments. (Al Falih et al., 2019) Said that there are still several MSME owners who have difficulty managing and developing their businesses optimally. As a result, several MSMEs face failure in running their business. Financial management has an important role in financial management, helping MSMEs plan income and expenses for a certain period. One of the challenges faced by MSME players is the lack of attention to financial management by accounting principles. This is caused by the limited knowledge of MSME actors about finance and inadequate understanding of accounting (Arifwangsa Adiningrat et al., 2022)

Good financial management quality is an important basis for business success and effective financial management can increase the profitability and competitiveness of MSMEs. Due to developments in the business sector and increasingly fierce competition between MSMEs, every MSME must pay attention to its financial condition. If MSMEs have regular and good financial management, they can develop well. Most of the financial aspects of several MSMEs have experienced developments in their financial management. MSME players do not fully understand the importance of financial management for the continuity of their business (Arifwangsa Adiningrat et al., 2022). Previous research conducted (Martono & Febriyanti, 2023) proves that the quality of financial management has a positive impact on the performance of MSMEs. (Wahyudiati & Isroah, 2018) Research results show that good financial management is very important in running a business to achieve optimal performance. The better financial management, the better the performance of MSMEs. Then, in contrast to research conducted by (Vitta Whella Hertadiani & Diyan Lestari, 2021), the quality of financial management does not have a positive influence on the performance of MSMEs.

Product innovation is also an important aspect of maintaining competitiveness in a competitive market. During rapid changes in consumer preferences, MSMEs need to continue to innovate to meet consumer needs and expectations. Innovation is an inseparable part of the business world because it is at the core of a company's development. Innovation can appear in various places and be carried out by anyone. It is not only large companies that need to innovate, but small companies also need to innovate for the sustainability of their business (Agus Sulistiyo et al., 2022). However, from previous research conducted by (Armando Nenta & Dewi Astuti, 2023) product innovation does not have a significant positive influence on the performance of MSMEs.

Apart from that, the use of digital payments is one of the factors that impacts MSME performance. Digital payments are seen as a transaction tool that utilizes electronic devices, such as banking services via SMS, digital wallets, mobile banking, and internet banking, where transactions can only be carried out using smartphones (Leksono Putri Handayani et al., 2022). Digital payment is a solution that acts as a platform to facilitate direct interaction between connected consumers and producers (Sukayana & Sinarwati, 2022). Using digital payment technology, business actors can monitor transactions and payments directly as the process occurs. In this way, financial recording/data collection becomes more precise, and the proceeds from sales can be directly transferred to the bank, which reduces the potential for losing money and prevents the receipt of counterfeit money (Tarantang et al., 2019). Research regarding the use of digital payments shows that there is no significant impact of implementing digital payments on the performance of MSMEs (Sukayana & Sinarwati, 2022).

This research is based on Contingency Theory, which states that the effectiveness of a management strategy depends on the alignment between an organization's internal and external conditions. The research gap in this study is the lack of research in Ponorogo Regency that simultaneously examines the influence of Financial Management Quality (FMQ), Product Innovation (PI), and Digital Payment (DP) on the performance of MSMEs in the food and beverage sector. The novelty of this research lies in providing empirical evidence that combines these three variables in a local context, thus providing both theoretical and practical contributions to MSME development in the region.

Based on the background explanation above, the researcher felt compelled to conduct further analysis after finding that previous studies showed mixed results: *financial management quality* (FMQ), *product innovation* (PI), and *digital payment* (DP) had the potential to positively influence MSME performance, but some studies also found no significant effect. Therefore, this study aims to confirm the actual influence of these variables on MSME performance. This study offers novelty in three main aspects. First, it combines three key variables—*financial management quality* (FMQ), *product innovation* (PI), and *digital payment* (DP)—simultaneously in analyzing the performance of food and beverage MSMEs in Ponorogo Regency.

To the best of the authors' knowledge, no prior research has examined these three variables together in this region, thereby providing a more comprehensive perspective. Second, the research was conducted in 2024–2025, during a period when MSMEs are facing post-pandemic challenges, rapid digital technology adoption, and shifting consumption patterns among Generation Z toward a more cashless lifestyle. This context differs from most previous studies conducted before the massive surge in digital payment usage and the shift in consumer trends. Third, the study emphasizes the local context of Ponorogo, which has unique characteristics: the dominance of traditional culinary MSMEs, varying levels of digital literacy, and limited access to formal financing.

The findings are expected to provide theoretical contributions by enriching the literature on MSME performance in developing regions, as well as practical contributions in the form of strategic recommendations for business actors to integrate sound financial management, relevant product innovation, and modern payment technology to improve competitiveness. Thus, this research not only tests the relationships between variables but also captures the current phenomena faced by MSMEs, thereby filling the research gap and offering relevant insights for academics, business practitioners, and policymakers.

According to (Semekto, 2021) contingency theory is said to be a comparative way of thinking, by comparing various well-known management theories. This approach is an innovation in management theory and practice. Formally, contingency theory aims to determine the research, practices, and managerial techniques that are most appropriate and appropriate to certain conditions in the company. Based on this approach, each different situation requires a different managerial response. (Aulia Wardhana et al., 2023) said there are several contingency theory factors including environment, technology, structures, structure size, strategy, and organizational culture. Some of these factors are referred to as organizational context variables which support the contingency theory approach. These factors can also influence performance in the organization. Between SPM technology information and financial performance, it is explained very well by the contingency theory approach. Thus, contingency theory serves as a basis for analyzing the relationship between the variables in this research.

MSME performance is the level of success a person achieves in running their business, which is reflected by sales growth, increased capital, number of workers, market share, and profits that continue to increase (Joko Susilo et al., 2022). Maximum performance is the main goal for each business unit in carrying out its operations (Baby Stephani Kasendah & Candra Wijayangka, 2019). According to (Agus Sulistiyo et al., 2022) Performance is related to the implementation of tasks, the results obtained from the work, as well as the process and methods of completing them. Achieving optimal performance is the main goal for every MSME.

(Vitta Whella Hertadiani & Diyan Lestari, 2021) Said that business performance refers to the extent of achievements that have been achieved by a company or business in a certain period as a result of the activities or efforts that have been carried out. Inefficient performance can be affected by various factors, both from within and outside the business. Musran Minuzu (2010) stated that several factors that influence the performance of MSMEs are HR aspects, financial aspects, technical aspects of production and operations, market and marketing aspects, government policy aspects, social, cultural, and economic aspects, as well as behavioral aspects (Akbar et al., 2021). Several indicators of MSME performance according to (Aribawa, 2016) company growth, sales, consumers, profits, and growth in total assets.

The quality of financial management (financial management) refers to the ability of an individual or organization to manage financial resources efficiently and effectively to achieve set financial goals and includes management of income, expenses, and investments, as well as comprehensive financial monitoring (Yolanda Basongan et al., 2023). In financial management, recording has an important role in documenting every transaction that takes place within a certain

period. This process needs to be carried out systematically and in detail to reduce the risk of errors that could harm the company in the future. (Arifwangsa Adiningrat et al., 2022).

Quality financial management plays a crucial role in achieving short-term and long-term financial goals and maintaining financial stability (M. Naufal Abdilah, 2023). According to (Sidrotun Naim, 2024) Effective financial management is important for the success and sustainability of all aspects of the business world, including micro-enterprises in the culinary sector. Based on the statement (Made et al., 2021) dividing the quality of financial management into four stages; a) Financial Planning, b) Financial Recording, c) Financial Reporting, d) Financial Control. The quality of good financial management will be seen from the management and allocation carried out effectively and efficiently. (Fuad Alamsyah et al., 2024).

The results of the study conducted by (Martono & Febriyanti, 2023) prove that the quality of financial management has a positive influence on the performance of MSMEs. In line with the results of the study by (Wahyudiati & Isroah, 2018) stated that the financial aspect has a positive influence on MSME performance. He continued (Ilarrahmah et al., 2021) in his study stated that the better the ability of business owners to prepare financial reports, the better the performance of their businesses. Conversely, if the ability to prepare financial reports decreases, the performance of MSMEs will also be negatively affected. Then the results of the study (Rostikawati & Pirmaningsih, 2019) showed that there was a directional influence on the ability to prepare financial reports on MSME performance. There are several indicators of the quality of financial management, namely financial planning, financial budgeting, financial evaluation, and financial control (Jayanti et al., 2020)

H1: There is an influence of Financial Management Quality on MSME performance.

Innovation is a driver of competition to grow in business, generating profits and lasting value (Tika et al., 2022). Innovation is an inseparable part of the business world because it is the core of a company's development. Innovation can appear in various places and be carried out by anyone. Not only do large companies have to innovate, but small companies also need to innovate for the sustainability of their businesses (Agus Sulistiyo et al., 2022b).

Product innovation can be interpreted as an increase in function that allows a product to be superior to competitors' products (Razie et al., 2022a). (Harini et al., 2022) Said that the higher the level of product innovation produced, the more business performance will increase. To keep products and services competitive in the market, MSMEs need to innovate. Business actors can gain a competitive advantage by planning innovations, such as innovations in products, processes, and marketing. Previous research (Joko Susilo et al., 2022) stated that without innovation, a business is vulnerable to being displaced by competitors. In general, innovation in a business is the ability to implement innovative solutions in facing various challenges and opportunities to improve the performance of MSMEs. With strong innovation, MSMEs are not only able to survive, but also have the potential to expand their market share, thus having a positive impact on improving the performance of the MSMEs themselves. The higher the innovation of a product, the more MSME sales will increase, so that the performance of the MSME can also increase (Widodo & Puspitasari, 2024). The results of the study (Razie et al., 2022) product innovation has a positive impact on MSME performance. In addition (Cimenser et al., 2011) also stated that product innovation can be one of the factors that support improvements in the performance of a business. According to (Cimenser et al., 2011) there are also several indicators used to measure the level of product innovation, namely, design changes, changes in distribution systems, changes in sales systems, and payment systems.

H2: There is an influence of product innovation on MSME performance.

Digital payment is an online payment method that requires users to utilize network system software and digital accounts, which replace the use of cash transactions by using non-cash payment methods through various communication tools and digital-based payment platforms (Musthofa et al., 2020). For MSMEs, the implementation of digital payments provides various benefits, such as increased operational efficiency, reduced transaction costs, and higher security compared to cash. The digital payment method is widely used because it is considered safer, more efficient, and more effective.

One of the main benefits of a digital payment system is its practicality and efficiency. Transactions can be made anytime and anywhere without the need to carry a credit card or cash, making the payment process faster and more practical. In addition, the system provides excellent

security guarantees, with encryption and security certificates to protect user data. Transactions made through the digital payment system can also be easily monitored and tracked. Users can now avoid queuing at the bank and filling out payment forms manually because transactions can be done easily through the application or website provided. Along with the development of technology, the digital payment system continues to develop and be updated, and these improvements are believed to continue to grow in the future, along with the increasing services and conveniences offered (Sihabuddin & Dwi, 2024).

(Rani & Desiyanti, 2024a) States that the more optimal the implementation of digital payments by MSMEs, the more their performance will increase. The use of digital payments simplifies the transaction process during sales, which in turn can provide significant benefits in improving MSME performance. In addition, the use of digital payments in the business being run provides several advantages through increased convenience and ease of access in financial transactions (Arifwangsa Adiningrat et al., 2022).

Digital payments in Indonesia can be seen from the many digital payment platforms such as GoPay, OVO, ShopeePay, LinkAja, and so on. These platforms provide convenience, are faster, and create a habit of being cashless. (Arsyad et al., 2022). From the results of previous studies (Musadad et al., 2023) digital payments affect the performance of MSMEs, where the more or the number of uses of digital payment methods, will have a positive impact on improving the performance of MSMEs. Meanwhile, digital payments also affect the performance of MSMEs. The better MSMEs use digital payments, the more MSME performance will increase (Rani & Desiyanti, 2024). The results of the study (Asisa et al., 2022) also stated that digital payments have a significant and positive influence on the performance of MSMEs. Furthermore, (Nuzulya Pahlawi et al., 2024) The convenience of digital payments partially and significantly influences the performance variables of MSMEs. According to (Suryanto et al., 2022) the indicators of digital payments are perceived ease of use, perceived benefits, perceived credibility, social influence, and behavioral intentions.

H3: There is an influence of digital payments on MSME performance

Based on the description above, the following research model was created:

The hypotheses in this study are formulated with clear orientation based on theory and previous research findings, namely:

H1 (+): Financial Management Quality has a positive effect on MSME performance.

H2 (+): Product Innovation has a positive effect on MSME performance.

H3 (+): Digital Payment has a positive effect on MSME performance.

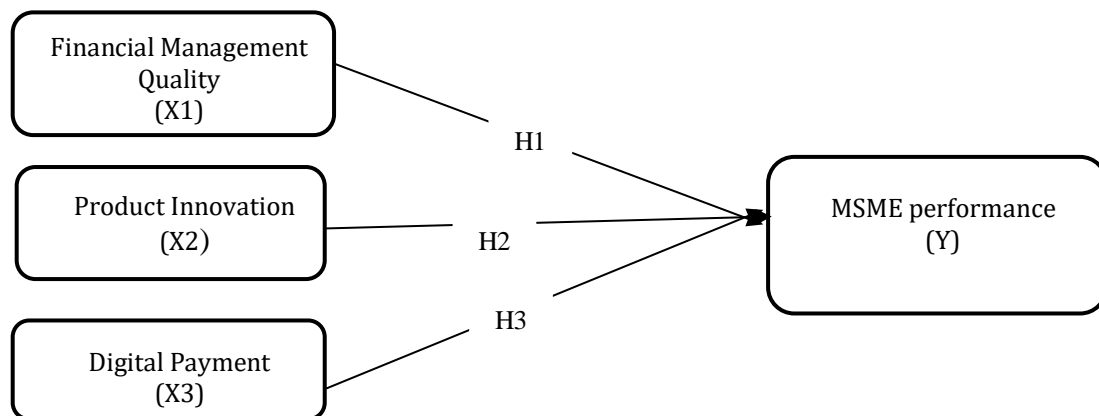


Figure 1. Research Model

METHOD

This research uses a quantitative approach with survey techniques as a method for collecting data for empirical analysis, through data collection methods carried out by distributing questionnaires directly and using Google Forms as a tool. The research instrument was developed based on indicators adapted from previous validated studies, namely financial management quality

(Jayanti et al., 2020), product innovation (Cimenser et al., 2011), digital payment (Suryanto et al., 2022), and MSME performance (Aribawa, 2016), and modified to fit the local context. Each indicator was measured using a 1–10 Likert scale, where 1 = “strongly disagree” and 10 = “strongly agree.” The total score was converted into a percentage and categorized as Low (14–42), Medium (42.1–71), and High (71.1–100). And data analysis in this study used Smart PLS 3.29. This study uses primary data, data obtained directly from the research location, namely food and beverage UMKM actors in Ponorogo Regency. In this study, the population selected is the owners of food and beverage UMKM in Ponorogo who use a digital payment system.

Non-probability sampling method uses a purposive sampling model in sample selection, where sampling is done based on predetermined criteria to suit the objectives of the study. To determine the number of samples, the Hair et.al (2009) formula is used, namely the minimum sample size multiplied by 5 to 10 times the number of indicators so that the sample value of 17x7 is 119 samples. Based on the calculation with the Hair et al (2006) formula, the number of respondent samples for this study uses a minimum of 119 samples, which is considered sufficient for analysis purposes. After 150 questionnaires were collected that responded, an outlier test was carried out and 123 questionnaires were suitable for use. The analysis used Structural Equation Modeling–Partial Least Squares (SEM-PLS) with SmartPLS 3.29. SEM-PLS was chosen because it is suitable for relatively small sample sizes, does not require normally distributed data, supports predictive and exploratory modeling, and can handle reflective measurement models effectively.

In this study, four variables were used, namely financial management quality, product innovation, and ease of digital payment on MSME performance. The measurement of indicators for each variable is as follows. Financial management quality indicators consist of financial planning, financial budgeting, financial evaluation, and financial control. Indicators for product innovation are design changes, distribution system changes, sales system changes, and payment systems. Indicators of digital payment include perceived ease of use, perceived benefits, perceived credibility, social influence, and behavioral intentions. Indicators of MSME performance include company growth, sales growth, consumer growth, and growth in the number of assets.

Data analysis techniques are used to answer the problem formulation or test the formulated hypothesis. Data processing in this study uses smartPLS 3.0 Software. In the PLS (Partial Least Square) method, the analysis techniques used are as follows: 1) Outer model analysis. 2) Inner Model Analysis. And 3) Hypothesis Testing

RESULT AND DISCUSSION

Variable Description

Respondents' perceptions of the variables studied: Financial Management Quality, Product Innovation, Digital Payment, and MSME Performance. This study uses a range criterion of 3 categories. Therefore, the interpretation of the values is as follows:

Low: 14 - 42

Medium: 42.1 - 71

High: 71.1 – 100

Financial Management Quality

Table 1. Financial Management Quality

No	Variable Statement	Std. Deviation	Percentage	Category
1	I have a financial plan that helps me manage my business finances well.	1,145	89,84	High
2	I have a clear and detailed financial budget every month	0,905	90,33	High

3	I routinely evaluate my MSME financial reports to find out and assess business performance.	1,028	89,76	High
4	Financial control helps maintain the financial stability of my business.	1,018	89,27	High

Source: Processed Primary Data

Table 1 shows that the average overall index of respondents' answers to each human capital indicator is 89,80% with details as shown in table 1 above. I have a clear and detailed financial budget every month has a percentage of answers of 90,33% included in the high category. This shows that business actors in the MSME sector have a clear and detailed financial budget every month. Financial control helps maintain the financial stability of my business has a percentage of answers of 89,27% included in the high category. This shows that business actors in the MSME sector already have the ability in financial control to help maintain the financial stability of their businesses. This proves that they have good abilities in managing finances to support every business they run. Thus it can be concluded that business actors in the MSME sector in terms of Financial Management Quality aspects have met the criteria in terms of financial management, control, and financial plans.

Product Innovation

Table 2. Product Innovation

No	Variable Statement	Std. Deviation	Percentage	Category
1	Product design changes help increase the appeal of my business in the eyes of customers.	0,963	92,52	High
2	I use technology to support product distribution, such as online delivery services.	0,918	91,63	High
3	I have changed the way I sell products, for example by adding online sales channels.	0,911	90,81	High
4	I have introduced new payment systems, such as digital payments or e-wallets, to facilitate transactions.	0,962	89,76	High

Source: Processed Primary Data

Table 2 shows that the average overall index of answers from respondents for each Product Innovation indicator is 91,18% with details as shown in table 2 above. Changes in product design help increase the attractiveness of my business in the eyes of customers have a percentage of answers of 92,52% included in the high category. This shows that MSME business actors have implemented changes in product design and helped increase the attractiveness of their business in the eyes of customers. I have introduced a new payment system, such as digital payments or e-wallets, to facilitate transactions of 89,76% included in the high category. This shows that business actors in the MSME sector have introduced new payment systems, such as digital payments or e-wallets, to facilitate transactions. Thus, it can be concluded that business actors in the MSME sector in terms of Product Innovation have that product innovation, distribution, and sales processes have been implemented well to increase business competitiveness.

Digital Payment

Table 3. Digital Payment

No	Variable Statement	Std. Deviation	Percentage	Category
1	I have no difficulty when making transactions using digital payment methods.	0,961	92,44	High
2	The use of digital payments increases efficiency in my business transaction process	1,076	92,44	High
3	I believe that the digital payment system I use is safe and reliable.	0,896	92,03	High
4	Many of my customers prefer to use digital payments	0,932	90,89	High

Source: Processed Primary Data

Table 3 shows that the average overall index of respondents' answers to each digital payment indicator is 91,97% with details as shown in table 3 above. The use of digital payments increases efficiency in my business transaction process with a percentage of answers of 92,44% included in the high category. This shows that the use of digital payments can increase efficiency in the business transaction process. Many of my customers who prefer to use digital payments have a percentage of answers of 90,89% included in the high category. This shows that digital payments are a popular choice among customers. Thus, it can be concluded that the use of digital payments has been widely accepted, both by business actors and customers, because it provides convenience, efficiency, and security, and is by market preferences.

MSME performance

Table 4. MSME performance

No	Variable Statement	Std. Deviation	Percentage	Category
1	I can expand my business reach, such as adding new branches or services.	1,040	90,00	High
2	The number of customers or consumers who buy my products is increasing every month.	1,103	92,11	High
3	In recent times, my business has been able to generate higher profits than before.	0,998	90,65	High
4	In recent times, I have succeeded in increasing the number of assets used to support business operations.	1,071	89,84	High

Source: Processed Primary Data

Table 4 shows that the average overall value of the respondent's answer index on the indicator for the UMKM performance variable is 90,65% with details of the respondents' answers presented in table 4 above. The number of customers or consumers who buy my products is increasing every

month has a percentage of answers of 92,11% included in the high category. This shows that every month there is an increase in purchases of UMKM products. In recent times, I have succeeded in increasing the number of assets used to support business operations with a percentage of answers of 89,84% included in the high category. This shows that the majority of business actors have succeeded in increasing the number of business assets. Thus it can be concluded that UMKM actors have succeeded in improving their business performance through expanding their reach, customer growth, increasing profits, and accumulating assets that support the sustainability of their business.

Results of Partial Least Square Analysis (SmartPLs) Outer Model Result (Measurement Model)

The purpose of outer model analysis is to assess the measurement construct of latent variables. This analysis aims to conduct validity and reliability tests. Validity tests are conducted to measure the extent to which research indicators describe something that will be measured (latent variables). Validity tests can be seen at two points, namely outer loading and discriminant validity. The first validity test uses the outer loading table as presented in Table 5.

Table 5. Outer Loading

	Digital Payment	Product Innovation	MSME performance	Financial Management Quality
DP1	0,781			
DP2	0,828			
DP3	0,770			
DP4	0,797			
PI1		0,755		
PI2		0,771		
PI3		0,828		
PI4		0,765		
MP1			0,795	
MP2			0,852	
MP3			0,809	
MP4			0,761	
FMQ1				0,806
FMQ2				0,721
FMQ3				0,774
FMQ4				0,765

Source: SmartPLs 3.29 output

Based on the statistical tests conducted, it can be explained that all indicators of each variable are considered valid. This can be seen from the factor loading value for each indicator $>0,70$. This is as stated by (Ghozali, 2016) that data is considered valid if the factor loading is $>0,70$. For further analysis of each indicator, namely by using the cross-loading table. This can be presented in the following table 6:

Table 6. Cross-Loadings

	Digital Payment	Product Innovation	MSME performance	Financial Management Quality
DP1	0,781	0,755	0,434	0,528
DP2	0,828	0,720	0,564	0,711
DP3	0,770	0,521	0,580	0,585
DP4	0,797	0,620	0,602	0,540
PI1	0,745	0,755	0,427	0,520
PI2	0,588	0,771	0,436	0,556
PI3	0,604	0,828	0,466	0,770
PI4	0,579	0,765	0,438	0,741
MP1	0,577	0,529	0,795	0,533
MP2	0,602	0,480	0,852	0,525
MP3	0,526	0,427	0,809	0,449
MP4	0,528	0,378	0,761	0,408
FMQ1	0,626	0,578	0,496	0,806
FMQ2	0,567	0,698	0,392	0,721
FMQ3	0,536	0,567	0,501	0,774
FMQ4	0,567	0,741	0,433	0,765

Source: SmartPls 3.29 output

Table 6 shows that all indicator loadings on the construct are greater than their cross-loadings. Therefore, this model has met the requirements of discriminant validity. Furthermore, the reliability test in Table 7 presents Cronbach's alpha and composite reliability values; it also shows the average variance extracted (AVE) value used to indicate convergent validity. The data is valid if the AVE value exceeds 0,5. Based on Table 7, the latent variable construct has been valid so that the next stage of analysis (reliability test) can be carried out. Meanwhile, the reliability of the test can be seen in Cronbach's alpha and Composite Reliability columns. If the latent variables in both categories have values exceeding 0,7, then the data is reliable. The reliability test itself is carried out to measure whether the questionnaire or indicators used in the study can provide consistent or stable results over time (Ghozali, 2016).

Table 7. Construct Reliability and Validity

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
Digital Payment	0,806	0,811	0,872	0,631
Product Innovation	0,785	0,787	0,862	0,609
MSME performance	0,818	0,822	0,880	0,648
Financial Management Quality	0,767	0,774	0,851	0,589

Source: SmartPls3.29 output

Table 7 shows that of the four latent variables used in this study, the Cronbach's Alpha and Composite Reliability values are greater than 0,7. Thus, based on the test results, it has met the requirements and can be continued to the next test stage, namely the inner model.

Inner Model (Structural Model) Result

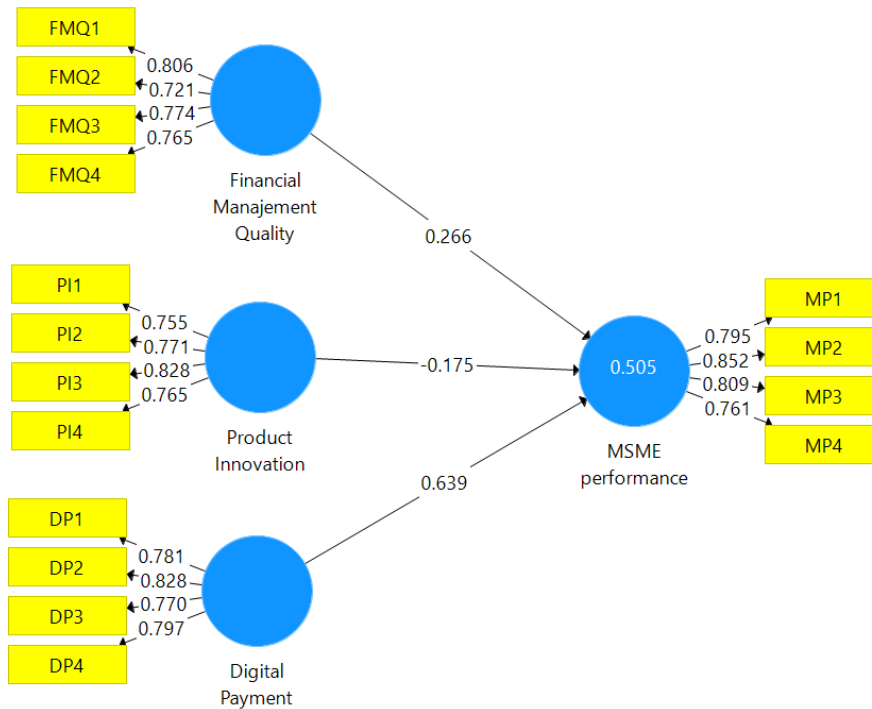


Figure 2. Path Coefficient

From the image above, the path coefficient value is determined using the following equation:

$$\eta_1 = a\epsilon_{KMK} + a\epsilon_{IP} + a\epsilon_{DP} + e\eta_1$$

$$\eta_1 = 0,266 \text{ Financial Management Quality} - 0,175 \text{ Product Innovation} + 0,639 \text{ digital payment} + e$$

Square Value

Table 8 explains the contribution of exogenous variables to endogenous variables. From the table, it can be translated that the contribution of the variables Financial Management Quality, Product Innovation, and Digital Payment to MSME performance is 0,505 or 50,5%. This shows a strong influence of Financial Management Quality, Product Innovation, and Digital Payment on MSME performance.

Table 8. R-Square

	R Square	R Square Adjusted
MSME performance	0,505	0,492

Source: SmartPls3.29 output

Q-Square Test (Q2)

Table 9 performs a Q-Square test which aims to predict whether the model is good or not. The Q-Square test can be performed using the blindfolding procedure. The Q-Square test value states that $Q^2 > 0$, meaning that the variables and data can predict the model well. While $Q^2 < 0$ means that the

variables and data have not been able to predict the model well. Is classified as large. The test results show the performance of MSMEs with a value of 0,306. It can be concluded that the variables can predict the model well.

Table 9. Q-Square (Q^2)

	SSO	SSE	$Q^2 (=1 - \frac{SSE}{SSO})$
Digital Payment	492,000	492,000	
Product Innovation	492,000	492,000	
MSME performance	492,000	341,399	0,306
Financial Management Quality	492,000	492,000	

Source: SmartPls3.29 output

Hypothesis Testing

Table 10. Path Coefficients

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ($ O/STDEV $)	P Values
Digital Payment -> MSME performance	0,639	0,638	0,117	5,456	0,000
Product Innovation -> MSME performance	-0,175	-0,179	0,160	1,093	0,275
Financial Management Quality -> MSME performance	0,266	0,272	0,115	2,304	0,022

Source: SmartPls3.29 output

Financial Management Quality on MSME Performance

Based on the results of hypothesis testing 1 (H1), the path coefficient value presented in Table 10 obtained a t-statistic value of 2,304 > t-table, namely 1,980, while the probability value or P-value is 0,022 < 0,05. So it can be concluded that the first hypothesis, namely the quality of financial management on MSME performance, can be accepted.

Product Innovation on MSME Performance

Based on the results of testing hypothesis 2 (H2), the path coefficient value presented in Table 10 obtained a t-statistic value of 1,093 < t-table, namely 1,980, while the probability value or P-value 0,275 > 0,05. So it can be concluded that the second hypothesis, namely product innovation on MSME performance, is rejected.

Digital Payment on MSME Performance

Based on the results of testing hypothesis 3 (H3), the path coefficient value presented in Table 10 obtained a t-statistic value of 5,456 > t-table, namely 1,980, while the probability value or P-value is 0,000 < 0,05. So it can be concluded that the third hypothesis, namely that digital payment has a significant positive effect on MSME performance, can be accepted.

Discussion

Financial Management Quality on MSME Performance

The first hypothesis proposed in this study is that if the quality of financial management is higher, it can drive MSME performance. The quality of financial management built with indicators of financial planning, financial budgeting, financial evaluation, and financial control can have a positive impact on MSME performance as indicated by company growth, sales growth, consumer growth, and growth in the number of assets.

The existence of a clear and detailed financial budget every month received a positive response from respondents with a high category. This shows that MSME actors already have a clear and detailed financial budget every month. Through a structured budget, business actors can monitor expenses and income better, thereby preventing waste or unproductive use of funds. This budget also makes it easier to prepare accurate financial reports, which are very necessary to assess overall business performance. A clear and structured financial plan helps business owners manage cash flow, identify operational needs, and plan future business development.

The existence of a detailed financial budget every month ensures that expenses and income can be monitored properly, to avoid waste and increase efficiency. Routine evaluation of financial reports is crucial to assess business performance, detect problems that may arise, and take necessary corrective steps. Proper financial control also plays an important role in maintaining financial stability, so that businesses can run sustainably and be ready to face existing challenges. Therefore, it can be concluded that the variable of financial management quality has a positive and significant influence on MSME performance.

This shows that the better the quality of financial management implemented by business actors, the greater its contribution to improving operational efficiency, optimizing resource allocation, and maintaining business financial stability. With good financial management, MSMEs can achieve optimal performance, face financial challenges with better readiness, and create opportunities for sustainable business growth and development.

Product Innovation on MSME Performance

The second hypothesis proposed in this study is that higher product innovation cannot affect MSME performance. Product innovation built with indicators of design changes, changes in distribution systems, changes in sales systems, and payment systems cannot affect MSME performance as indicated by company growth, sales growth, consumer growth, and growth in the number of assets. This means that product innovation cannot affect MSME performance.

Product innovation, one of which is indicated by changes in product design, helps increase the attractiveness of the business in the eyes of customers, but has not been able to affect MSME performance. This is influenced because the product innovation carried out has not been balanced with an effective marketing strategy or adjustments to market needs. Although design changes attract customers' attention, without adequate promotion and education, the impact on sales and market share remains limited. In addition, the implementation of a distribution or sales system that is not yet optimal and limited resources make this innovation less impactful. Thus, product innovation needs to be supported by good management and an integrated strategy to contribute to improving MSME performance.

Digital Payment on MSME Performance

The third hypothesis proposed in this study is that if digital payments are higher, they can drive MSME performance. Digital payments built with indicators of perceived ease of use, perceived benefits, perceived credibility, social influence, and behavioral intentions can have a positive impact

on MSME performance as indicated by company growth, sales growth, consumer growth, and growth in the number of assets.

Digital payments are increasingly high through the number of customers or consumers who buy products increasing every month. The ease of transactions provided by digital payment methods ensures that the payment process takes place quickly and without obstacles, thereby increasing customer satisfaction. In addition, efficiency in transactions allows MSMEs to reduce the time and operational costs associated with manual payment management. This has a direct impact on increasing business productivity. Trust in the security of digital payment systems is also an important factor, where business actors feel confident that their financial data is protected, thus encouraging the adoption of this method in their business activities.

Furthermore, customer preferences for digital payments reflect the needs of modern consumers for more practical and flexible transaction methods. By providing digital payment options, MSMEs can reach more customers and increase their loyalty, which ultimately has a positive impact on the growth of sales, consumers, assets, and the company as a whole.

CONCLUSSION AND RECOMMENDATION

This study concludes that: (1) Financial Management Quality has a positive and significant effect on the performance of food and beverage MSMEs in Ponorogo Regency; (2) Product Innovation does not have a significant effect on MSME performance; and (3) Digital Payment has a positive and significant effect on MSME performance. These findings indicate that good financial management and the adoption of digital payment systems are key factors in improving MSME performance, while product innovation requires additional support such as effective marketing strategies and alignment with market needs to generate a more substantial impact.

MSME actors should enhance their financial management practices to optimize resources, prevent inefficiencies, and maintain financial stability. Adoption of diverse and secure digital payment platforms should be continued to improve transaction efficiency and customer reach. For product innovation to be impactful, MSMEs are advised to conduct market research, adapt innovations to consumer needs, and implement targeted promotional strategies. Future research should increase the sample size, improve questionnaire clarity, and consider adding variables such as financial literacy and marketing strategies to better explain MSME performance.

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