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The Effect of Financial Literacy on Cost Control in Small and Medium Enterprises (SMEs)

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Abstract

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This study examines the influence of financial literacy on cost control in Small and Medium Enterprises through a literature review approach. Financial literacy is identified as a key factor in effective financial management, particularly in cost planning and supervision. By analyzing scientific articles published over the past five years, this study explores the relationship between financial literacy and operational cost efficiency in Small and Medium Enterprises. The findings reveal that Small and Medium Enterprises with higher levels of financial literacy tend to maintain more organized financial records, develop realistic budgets, and implement stricter cost control measures. Furthermore, financial literacy promotes the adoption of digital financial technologies, enhances financial discipline, and supports data-driven decision-making. The study highlights the crucial role of financial literacy in strengthening Small and Medium performance, improving resource efficiency, and achieving sustainable business growth. It also suggests that financial literacy should be integrated into Small and Medium Enterprises development programs to enhance competitiveness and long-term financial stability.

1. Introduction

Small and Medium Enterprises (SMEs) have a strategic role in national economic development. In Indonesia, SMEs contribute more than 60% to the Gross Domestic Product (GDP) and absorb more than 97% of the national workforce (Ministry of Cooperatives and SMEs, 2022). This significant contribution places SMEs as one of the main pillars in driving economic growth, reducing unemployment, and equitable distribution of welfare. Despite this, the sector still faces various challenges, especially in terms of financial management and operational cost efficiency. One of the main challenges faced by SMEs is the low level of financial literacy among their business actors. Financial literacy can be understood as the ability to understand, manage, and use financial information effectively in economic decision-making (OECD, 2020).

In the context of SMEs, financial literacy includes an understanding of the basic principles of accounting, cash management, budgeting, and the ability to evaluate simple financial statements. Without adequate literacy, business actors have difficulty in developing effective financial strategies, including in the aspect of cost control which is a vital element in business financial management (Kembauw et al., 2020). Cost control is a systematic process to plan, supervise, and evaluate business expenses to stay within the budget and business objectives. Through effective cost control, SMEs can improve resource use efficiency, avoid waste, and maintain business sustainability in the long term. However, in practice, many SMEs have not been able to implement a cost control system optimally, due to a lack of understanding of the concept of costs, lack of financial records, and weak financial analysis skills.

Several studies have shown a positive relationship between financial literacy and cost control in SMEs. Research by Marija et al. (2021) states that SMEs with a high level of financial literacy tend to have more disciplined and strategic cost management behavior. They are better able to prepare business budgets, record expenses systematically, and evaluate the effectiveness of the use of costs in business activities. Similar findings were put forward by Ulfiany et al. (2023) who examined SMEs in the retail trade sector, and found that increased financial literacy significantly contributed to operational cost efficiency by up to 20% in a three-month period. Financial literacy also plays an important role in encouraging the use of financial recording technology which can help the cost control process in a more structured manner. Digital applications such as *BukuKas*, SME Accounting, and the like are increasingly accessible to micro and small business actors, but the level of utilization depends on the extent to which business owners understand the benefits and mechanisms of their use. Therefore, digital literacy supported by financial literacy is the key to the success of technology integration in the cost management process.

Unfortunately, improving financial literacy has not been a top priority in SME development programs in various regions. There are still many business actors who run their business informally without adequate recording and tend to use instinct in decision-making. This leads to an inability to identify the sources of waste, set a rational selling price, and develop a business development strategy that is oriented towards financial sustainability (Atif, 2023). Based on this background, this study aims to systematically examine how financial literacy affects cost control in SMEs through a literature study approach. By reviewing various empirical findings from previous research published in the last five years, this study is expected to provide an in-depth understanding of the importance of financial literacy in SME cost management practices. In addition, this study also aims to develop strategic recommendations for the development of financial literacy programs that are more applicable and contextual for SMEs in Indonesia.

2. Literature Review

2.1. The Concept of Financial Literacy in the Context of SMEs

Financial literacy is defined as the ability to understand basic financial concepts, manage money, make financial information-based decisions, and plan for the future financially (OECD, 2020). In the scope of SMEs, financial literacy includes skills in budgeting, managing cash flow, understanding simple financial statements, and making strategic financial decisions. According to Kurniawan and Simon (2022), SMEs who have high financial literacy will be more aware of the importance of financial recording, the use of a budgeting system, and ratio analysis to evaluate their business performance. This allows them to better manage financial risks and make more informed decisions. Research by Oggero et al. (2020) also found that financial literacy is positively correlated with the ability of entrepreneurs to set spending priorities and understand the consequences of business loans. This has a direct impact on the efficiency of the use of financial resources.

2.2. Cost Control in SMEs

Cost control in Small and Medium Enterprises (SMEs) is a systematic process that aims to monitor, manage, and reduce expenses to stay within the set limits. This process includes not only supervision of fixed costs and variable costs, but also the identification of activities that do not provide added value to the company. According to Sularsih and Wibisono (2021), cost control consists of three main stages, namely planning, implementation, and evaluation. These three stages are interconnected and form a continuous cycle to ensure that expenses remain under control in accordance with the financial goals set.

The lack of a cost control system can have significant negative impacts, such as wasting resources, decreasing profitability, and even leading to business bankruptcy. On the other hand, effective cost control can provide great benefits, such as increased operational efficiency, suppression of waste, and strengthening the financial resilience of businesses in the long term. Findings from research conducted by Pfister and Lehmann (2023) show that SMEs that implement a digital cost recording system are able to reduce unproductive expenses by up to 30%. This fact underscores that skills in managing and controlling costs play an important role in the operational success and sustainability of small and medium-sized businesses amid increasingly complex economic challenges.

2.3. The Relationship between Financial Literacy and Cost Control

The relationship between financial literacy and cost control is direct and mutually reinforcing, especially in the context of Small and Medium Enterprises (SMEs). SMEs who have a good financial understanding will be better able to prepare budgets, control cash flow, and evaluate the effectiveness of operational costs as a whole. This ability provides the basis for more rational decision-making in managing limited financial resources. Research by Ulfiany et al. (2023) found that financial literacy allows business actors to prioritize important expenses, postpone non-productive purchases, and make regular savings. This shows that financial literacy provides a systematic and efficient framework for cost decision-making.

In addition, SMEs who are financially literate are also more accustomed to applying efficiency principles such as cost-benefit analysis, which is an important basis for assessing the feasibility and impact of an expenditure. Jin et al. (2021) added that financial literacy supports the implementation of a transparent financial reporting system. This transparency plays a big role in strengthening the cost monitoring and evaluation process, as it provides access to accurate and up-to-date data. With this data, SMEs can detect waste early and immediately make adjustments to operational strategies. Therefore, financial literacy is not only a tool, but an important foundation in creating an effective and adaptive cost control system.

3. Method

This study uses the literature review method as the main approach in examining and analyzing various previous research results that discuss the influence of financial literacy on cost control in Small and Medium Enterprises (SMEs). This approach was chosen because it allows researchers to gain a thorough and in-depth understanding of the topic being researched through reliable sources without the need to collect field data directly. Using a literature review, researchers can explore various academically tested findings as well as compare different perspectives on the relationship between financial literacy and cost control practices in the context of SMEs.

The research procedure begins with the identification of relevant keywords to be used as a basis in the literature search. These keywords include financial literacy, cost control, SMEs, financial management, and business efficiency. The search was conducted through the Google Scholar database, using a number of selection criteria to ensure the quality and relevance of the articles obtained. The criteria include: articles published in the last five years, have a primary focus on the Indonesian context (although it does not rule out the possibility of including relevant international studies); has a complete scientific article format and is not just in the form of abstracts; and explicitly discuss the relationship between the variables of financial literacy and cost control in SMEs. Based on the search and screening process, several scientific articles were obtained that met the inclusion criteria and were worthy of further analysis.

The articles were then thematically analyzed and classified into three main categories based on the focus of the discussion. The first category is a study that explains the direct influence of financial literacy on cost efficiency, where it was found that good financial understanding is positively correlated with the ability of business actors to manage costs effectively. The second category includes studies that contain mediation or moderation variables, such as internal controls, leverage, and the use of digital technology, that affect the relationship between financial literacy and cost control. The third category is a study that links financial literacy with the managerial behavior of SMEs, which ultimately has an impact on effectiveness in cost control.

Analysis of articles was carried out qualitatively by comparing the findings, methodology, research context, and conclusions of each study. The purpose of this analysis is to identify consistent patterns, possible inconsistencies, and find research gaps that have not been widely revealed. Through a synthesis of these studies, the research aims to answer two main questions: how does financial literacy affect the effectiveness of cost control in SMEs? and what are the strategic implications of these findings for SME actors and policymakers in Indonesia?

4. Results

The results of this literature review show a strong relationship between financial literacy and the effectiveness of cost control in Small and Medium Enterprises (SMEs). All articles analyzed in this study consistently state that financial literacy plays a significant role in helping SMEs design efficient and sustainable cost strategies. Good financial literacy gives business actors the ability to understand their business cost structure, group fixed and variable costs, and make data-based decisions related to spending priorities (Sudolska & Łapińska, 2020). This creates a solid foundation in cost control practices that are not only reactive to spending, but also proactive in planning and reviewing efficiency strategies on a regular basis.

In a study conducted by Marija et al. (2021), it was found that SMEs who have a basic understanding of accounting and financial management principles tend to be more disciplined in recording expenses and are able to avoid unproductive expenses.

They are more prudent in budgeting and have a higher tendency to review financial statements regularly. This is significantly different from SMEs who have low financial literacy, who generally do not have clear bookkeeping, tend to use personal and business money in a mixed manner, and find it difficult to distinguish basic expenses from additional expenses. These findings show that financial literacy not only provides benefits in a technical form, but also leads to more systematic and professional financial behavior.

Another study by Ulfiany et al. (2023) reinforces these findings. In a study focused on Warung Madura SMEs, it was found that business actors who have a good level of financial literacy are able to reduce operational costs by up to 20% within a period of three months. This is achieved through the ability to prepare monthly budgets, design merchandise purchasing strategies, and evaluate small expenses that have been neglected but accumulative. One of the efficiency practices that has been successfully implemented is the purchase of goods in bulk to obtain price discounts as well as the reuse of packaging that can reduce logistics costs. This fact shows that financial literacy also encourages the emergence of practical innovations in managing daily business costs.

Research by Sularsih and Wibisono (2021) highlights that financial literacy encourages SMEs to start implementing a cost recording system, both manually and digitally. Through simple training provided by the accompanying institution, many business actors have started to use daily cash books or digital financial recording applications that simplify the cost monitoring process. With orderly recording, SMEs can find out when and how much funds are spent, as well as compare the actual costs with the planned budget. This has direct implications for decision-making, such as when to reduce operational costs, make savings, or adjust sales targets. Indirectly, regularity in recording strengthens the accountability aspect and allows for more objective periodic evaluations.

The adoption of technology in cost control practices is also an important outcome found in this study. According to Jin et al. (2021), SMEs that have been exposed to financial literacy training are more open to the use of digital financial applications. In the context of SMEs in Bandung, as many as 65% of respondents who use cash recording applications stated that the use of technology helps them identify sources of waste faster, as well as improve the discipline of daily recordkeeping. In fact, some applications such as *BukuKas* and *AkuntansiUKM* allow users to set notifications when expenses exceed a predetermined budget limit. Thus, digitalization supported by financial literacy is able to function as a real-time and preventive cost control tool.

The results of the study by Kurniawan and Simon (2022) also show that financial literacy affects the ability to understand simple financial ratios, such as the cost-to-sales ratio or the net profit ratio. Business actors who are able to interpret this ratio can evaluate the effectiveness of the cost strategies implemented and make timely improvements. For example, if the ratio of marketing costs to sales is more than 25%, financially literate SMEs will evaluate promotional strategies and look for promotional alternatives that are more economical but still effective, such as through organic social media rather than paid advertising. This literacy provides analytical power in the strategic decision-making process that has a direct impact on profitability.

Another aspect that appears in the literature findings is that financial literacy does not work independently, but is influenced by the personal character of business actors. Research by Oggero et al. (2020) and Fadilah and Purwanto (2022) noted that SMEs with a high level of financial literacy are not necessarily able to reduce costs if they are not accompanied by self-control and discipline in financial management. In some cases, business owners understand the importance of bookkeeping and cost control, but due to consumptive lifestyles or inconsistencies in practice, efficiency strategies do not run optimally. Therefore, financial literacy needs to be accompanied by character training and financial behavior management. This finding is important because it shows that financial education is not enough to target the aspect of knowledge, but also the formation of business management habits and ethics.

A study by Crovini et al. (2021) also highlights that SMEs who understand the principles of financial risk management tend to be better prepared to deal with unexpected costs. They have contingency plans, emergency funds, and are able to develop a flexible fee structure that can be adjusted to changing market demand. In the COVID-19 pandemic situation, for example, SMEs that have a good understanding of financial literacy are able to cut conventional marketing costs and switch to digital strategies with lower costs but wider scope. This adaptive ability makes financial literacy a crucial element in business resilience amid economic uncertainty.

In addition, financial literacy also encourages SMEs to make financial projections and break-even point analysis. Research by Bhimani (2022) shows that SME owners who are able to calculate break-even can design the right pricing strategy, avoid overly aggressive discounts, and ensure that fixed and variable costs are covered by the revenue earned. This is crucial in maintaining stable cash flow and avoiding an operating deficit. This kind of projection and analysis is becoming increasingly important in a situation of intense competition, where efficiency and careful calculation are crucial to the sustainability of the business.

Several studies such as the one conducted by Pujiastuti (2023) also indicate that financial literacy encourages more optimal budget utilization. Financially literate SMEs tend to prepare budgets based on historical data and realistic projections, not just estimates. They also have a habit of comparing the realization of expenses with the budget and conducting variance analysis to find out the deviations that occur. This habit creates a positive evaluative culture in small businesses, thus helping to reduce inefficiencies and increase internal accountability.

However, not all of the study results show a smooth implementation of financial literacy. In some cases, as noted by Santiara and Sinarwati (2023), there are business actors who have participated in financial literacy training but have difficulty applying this knowledge due to time constraints, lack of manpower, or lack of technological support. Therefore, it is necessary to integrate financial literacy training with continuous direct assistance. This reflects the importance of public policy alignment in ensuring that financial literacy training is not purely ceremonial, but part of an integrated and practical SME coaching system.

The results of this literature study conclude that financial literacy plays an important role as a foundation in cost control in SMEs. Through increasing understanding of cost concepts, budgeting skills, the use of digital technology, and financial recording and analysis habits, SMEs can streamline operational costs and significantly increase business profitability. In addition, financial literacy also strengthens business resilience in the face of fluctuating economic conditions through adaptive and strategic cost planning. Therefore, financial literacy training must be an integral part of a sustainable SME development program, not only in terms of knowledge, but also through adequate policy support and coaching ecosystems.

5. Discussion

The results of the synthesis of various studies strengthen the hypothesis that financial literacy has a significant relationship with cost control in SMEs. Literacy not only enriches the technical knowledge of business actors in the financial sector, but also encourages them to form a more accountable system of recording and cost control. A good understanding of basic financial concepts enables business actors to prepare budgets, manage cash flow, and conduct periodic evaluations of the effectiveness of their spending. These findings are in line with the theory of financial behavior, which states that individuals financial decisions are not only determined by knowledge alone, but also by attitudes and environmental conditions in which they operate (OECD, 2020). In the context of SMEs, when business actors have good financial literacy, they will be better able to set efficient spending strategies, avoid consumptive debt, and prepare financial plans based on actual and relevant data.

In addition, financial literacy also appears to have a follow-up effect on managerial behavior. SMEs who are financially literate tend to be more disciplined in recording transactions, open to the use of digital technology for bookkeeping, and more capable of understanding and using financial ratio indicators in the decision-making process. This ability makes cost control not only an administrative routine, but also part of a sustainable business management strategy. Financial literacy ultimately creates a long-term orientation that supports business resilience in the face of economic fluctuations and market pressures.

However, a number of limitations were also identified in the results of this study. Not all business actors with high financial literacy are able to consistently implement the principle of cost control in their operational activities. Some studies show that non-technical factors such as consumptive culture, social pressures, lifestyle, and limited time to conduct financial evaluations are often barriers. In some cases, business owners who have been equipped with financial training still have difficulty in implementing the principle of efficiency due to unchanged habits or lack of discipline in practice (Nicolae Albu et al., 2021). This indicates that improving financial literacy alone is not enough without intervention in behavioral aspects and an adequate supportive environment.

In terms of policy, this result implies the need for financial literacy programs that are integrated with cost management training in an applicative manner. SMEs should not only be taught to calculate profit and loss or prepare basic financial statements, but also be trained to make decisions based on efficiency ratios, break-even point analysis, and budget control that is adaptive to business dynamics. The government, financing institutions, and SME assistance organizations are expected to provide support systems in the form of advanced training, direct assistance, and digital platforms that assist business actors in conducting financial monitoring on a daily basis. Having an app that is able to provide notifications of budget deviations or warnings of costs that exceed the limit can be an important tool in financial literacy-based cost control practices.

Academically, this study also has important implications, namely the need to develop financial literacy measurement instruments that are more specific to the SME context. So far, many studies have adopted a personal literacy model that is more suitable for use in household individuals. In fact, SMEs face different decision-making complexities, where the literacy dimension needs to include analytical skills on business costs, understanding of business risks, and the application of accounting technology. Therefore, a more contextual, comprehensive, and applicative measurement model is needed to support research and evaluation of SME financial capacity building programs in the future.

6. Conclusion

This literature study confirms that financial literacy has a vital role in increasing the effectiveness of cost control in small and medium enterprises (SMEs). Adequate financial literacy provides a foundation for SMEs to be able to systematically prepare budgets, monitor daily expenses, utilize simple accounting technology, and design measurable and data-based savings strategies. Understanding basic financial concepts such as the distribution of fixed and variable costs, break-even point analysis, and operational efficiency ratios allows business actors to make more rational decisions in financial management. However, the relationship between financial literacy and cost control effectiveness is not linear or automatic. Various other factors also influence, such as the level of self-control of business actors, financial information system support, and dynamic business environment conditions.

Therefore, efforts to improve financial literacy need to be carried out comprehensively. It is not enough for the training program to focus only on the transfer of technical knowledge, but must also include strengthening managerial behavior, the use of digital media, and continuous assistance in the application of cost control principles. A practical recommendation from the results of this study is the need for government and private institutions to provide financial literacy training that is more applicable and relevant to the real needs of SMEs, especially with regard to cost efficiency. Thus, financial literacy not only becomes conceptual knowledge, but also transforms into real practices that underpin the efficiency, resilience, and sustainability of small and medium-sized businesses in the long term.

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