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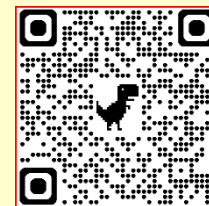
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## THE IMPACT OF THE DIGITAL DIVIDE, MANAGEMENT FINANCE TO THE PERFORMANCE OF DISTRICT MSMEs KARAWANG

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### ABSTRACT

*Karawang Regency is no exception to the importance of micro, small, and medium-sized enterprises (MSMEs) to the Indonesian economy. Low digital technology adoption and poor financial management are two of the many obstacles that micro, small, and medium-sized enterprises (MSMEs) in this area continue to confront. Find out how financial management and the digital divide affect the success of micro, small, and medium-sized enterprises (MSME) with this research. All operational MSMEs in Karawang Regency were included in the quantitative methodology. Data were gathered using surveys, and the sample was selected using a purposive sampling technique. We ran the numbers via SMARTPLS 4.0, which is a Partial Least Squares algorithm. Findings show that financial management and the digital divide significantly affect MSME performance for the better. A narrower digital divide means more opportunities for micro, small, and medium-sized enterprises (MSME) to boost efficiency, enter new markets, and compete more effectively. Stability, improved decision-making, and more trust from outside sources are all outcomes of well-managed finances. So that micro, small, and medium-sized enterprises (MSMEs) may prosper and endure in the digital age, this research stresses the need of enhancing financial management skills, increasing digital literacy, constructing technical infrastructure, and offering training in the use of business technology.*

**KEY WORDS:** digital divide, financial management, MSME performance

### INTRODUCTION

Nearly 60% of Indonesia's Gross Domestic Product (GDP) comes from micro, small, and medium enterprises (MSMEs), making it an important element in the country's economy. (Ministry of Cooperatives and SMEs, 2023). MSMEs in Karawang Regency are no exception which plays an important role in the local economy,

especially in the culinary sector which receives support from the "Champion MSMEs" government (Qodariah *et al.*, 2023). However, the performance of these MSMEs still does not show optimal results, even experiencing a decline caused by weak financial management and low use of technology *digital* (Rafidah & Permatasari, 2024),

this results in a gap in the use of technology (Lukas & Hasudungan, 2024), Only 1.27% or 1267 MSME units (Dinkop and UKM, 2023) who have adopted digital technology in their business processes. Digital marketing technology and strategies can improve the financial performance of MSMEs (Gao *et al.*, 2023). In addition, digitalization is also able to encourage the improvement of MSMEs' financial performance by facilitating access to financial services and strengthening the relationship between financial access and MSME performance (Goddess) *et al.*, 2023). The current condition of MSMEs in Karawang Regency faces challenges in financial and digital management, such as inefficient manual recording and digital gaps due to low technological understanding (Hidayaty *et al.*, 2021). Weak cash flow management, performance measurement, and access to formal financing also hampered the growth of MSMEs (Surachman *et al.*, 2024) It is proven that 98.12% of MSMEs in Karawang Regency have not utilized the digital financial information system, and 0.60% have received technology training, reflecting the improvement of the quality of Karawang Regency MSME products towards digitalization and modernization (Dinkop and MSMEs, 2023).

Gap *digital* Demonstrate differences in people's access and ability to use information and communication technologies, including internet access and digital devices (Muallif, 2024). This gap is caused by the economy, low literacy *digital* Lack of infrastructure, as well as age and cultural factors affect the rate of technology adoption (Saragih *et al.*, 2024). In the MSME environment, there is a gap between business actors who use digital technology and those who are still running businesses formally. (Angraini *et al.*, 2024), the gap involves differences in terms of access to technological devices, the ability to operate applications *digital*, as well as effectiveness in business and financial management (Anjarwati) *et al.*, 2023). Gap *digital* This is directly related to the overall financial management of MSMEs (Saragih *et al.*, 2024). The creation of digitalization was formed to help MSMEs, one of which is related to financial management. MSMEs that have been digitized tend to be able to compile neat financial statements, conduct periodic cash flow evaluations, and prepare business plans based on accurate financial data (Rahman & Siregar, 2023). MSMEs that have not used technology *digital* often difficulties in financial recording and access to financing due to lack of reliable financial data (Nurul S J, Faishal R, 2024). Thus, the gap *digital* not only widening the competitiveness gap between MSME actors, but also directly affecting the quality and effectiveness of their business financial management as a whole (Koswara *et al.*, 2024). In Karawang Regency, the gap *digital* has a direct impact on the financial performance of micro, small, and medium enterprises (MSMEs). MSME performance includes operational efficiency, increased revenue, profitability, and business resilience (Lukas & Hasudungan, 2024). Digital technology helps MSMEs reach more customers and increase business efficiency (Nugroho, 2024). Implementation of the payment system *digital* (*Payment Gateway*) has not had a significant impact (Sukma *et al.*, 2024). Many MSME actors still have difficulty accessing this technology, hampering their financial performance.

Several studies have discussed the negative impact of digitalization and how to manage it on the business capabilities of MSMEs. Research by (Source) *et al.*, 2023) It shows that the digitalization process brings good benefits, such as increasing efficiency in operations and opening up opportunities to enter the market through e-commerce platforms and social media. In addition, the research conducted by (Amalia *et al.*, 2025) which highlights the role of digital technology in increasing the competitiveness of MSMEs in

rural areas by bridging geographical limitations and access to information. While the study conducted by (Ramdanyah & Ganika, 2024) shows that digitalization has great potential, but there is no significant relationship between the adoption of digital technology and the financial performance of MSMEs. In the aspect of financial management, the results carried out by the (Farhani & Taufiqurahman, 2022) found that financial literacy and financial inclusion help MSMEs, because business actors who understand financial management are usually more stable and developed. Similar research was also conducted by (Aulia *et al.*, 2024) The results of his research state that the ability of MSME actors in financial statements and cash flow is important to achieve business targets. However, in contrast to the research conducted by (Octavia) *et al.*, 2024) shows that financial management has not had a significant effect on the performance of MSMEs because there are still obstacles such as limited capital, low market access, and traditional practices.

Many previous studies have examined the role of digitalization and financial management in influencing the performance of MSMEs. However, it generally focuses more on the influence of digitalization or financial management on the performance of MSMEs. So, it happened to fill the gap. So, the novelty in this study lies in the digital gap variable. Based on this, the following questions are asked:

RQ1: How does the digital divide affect the performance of MSMEs?

RQ2: How does financial management affect the performance of MSMEs?

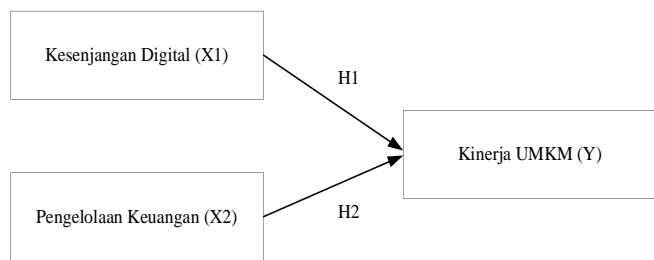
## LITERATURE REVIEW

### *Resource-Based View (RBV)*

Wernerfelt (1984) and Barney (1991) popularized the Resource-Based View (RBV), which states that an organization's performance and excellence are determined by how well it manages its internal resources (Iruthayasamy, 2021). In the context of MSMEs, the gap *digital* reflects limited access to strategic technological resources, while financial management reflects management capabilities that are essential for efficiency and decision-making (Springs, 2022). These two aspects are internal resources that have a direct effect on the performance of MSMEs (Alansori & Listyaningsih, 2022).

Use of the approach *Resource-Based View (RBV)* in this context encourage MSMEs, especially in terms of *digital*, to continue to grow (Lubis, 2022). This is due to the existence of a gap *digital* which requires MSMEs to build technology-based internal capabilities to be able to survive and compete in the era of transformation *digital* (Fauziana & Rizkia Budi, 2023). In perspective *RBV* Capabilities *digital* owned by MSMEs is a valuable strategic resource, scarce, and difficult to imitate, so it has the potential to become a sustainable competitive advantage (Urbanek, 2023). Furthermore, the financial management aspect is also an important part in strengthening the internal capabilities of MSMEs, because an adaptive and structured financial management system will support business growth, maintain liquidity stability, and strengthen competitiveness in local and global markets (Raharjo) *et al.*, 2022). Therefore, by using the *RBV*, strengthening the financial management system is seen as a strategic process in forming internal capabilities that are crucial and unique for business sustainability (Chatterjee *et al.*, 2023). Thus, the improvement of MSME performance is more determined by strengthening internal capabilities, so that the *RBV* Relevant to optimize resources that competitors are difficult to replicate (Widjaja & Yuga, 2020).

**Figure 1**  
Frame of Mind



Source: Author 2025

## RESEARCH FRAMEWORK AND HYPOTHESES

### Digital Gap on MSME Performance

Gap *digital* Shows differences in people's access and ability to use information and communication technologies, including internet access and devices *digital* (Muallif, 2024). This gap is caused by the economy, low literacy *digital* Lack of infrastructure, as well as age and cultural factors affect the rate of technology adoption (Saragih *et al.*, 2024). If the gap *digital* minimized, MSMEs can more easily access technology, market information, and services *digital*, so that business performance increases through operational efficiency, market expansion, and increased competitiveness (Skare *et al.*, 2023) On the other hand, the performance of MSMEs includes operational efficiency, increased revenue, profitability, and business resilience (Lukas & Hasudungan, 2024), which can actually be improved through the use of technology *digital*, because it is able to help MSMEs reach more customers and increase efficiency (Nugroho, 2024).

Nonetheless, micro, small, and medium enterprises (MSMEs) face obstacles such as the digital divide when trying to fully adopt information technology (IT), which can impact their company's performance. (Slamet & Martono, 2022). Limitations in access, utilization, and digital skills can hinder operational effectiveness, product innovation, and market expansion, thereby creating a competitiveness gap among business actors (Shatalova, 2022). Previous research supports a positive correlation between technology adoption *digital* and improving the performance of MSMEs, as done by (Wang & Chen, 2022) reveals that digitalization contributes to business efficiency and resilience, while a study conducted by (Teguh S W, 2022) shows that the use of digital technology strengthens the adjustment of MSMEs in the face of market changes. In addition, a study conducted by (Riswandi & Permadi, 2022) Demonstrate the level of readiness *digital* high in MSMEs significantly accelerating business transformation and driving sustainable revenue growth. Therefore, this hypothesis can be formulated as follows:

### H1 :Gap Digital Affects the Performance of MSMEs

### Financial Management of MSME Performance

Planning, organizing, directing, and organizing financial resources systematically so that they can be managed appropriately and efficiently to achieve organizational goals is a process known as financial management. (Ostaev *et al.*, 2023). Good financial management helps small and medium enterprises (MSMEs) in planning, allocating, and managing funds appropriately, so that they can support financial health, profits, and improve business results (Handayani, 2023). In terms of micro, small, and medium enterprises (MSMEs), business performance includes operational efficiency, increased revenue, profit levels, and the ability of

businesses to survive (Lukas & Hasudungan, 2024) Thus, good financial management has a positive relationship with improving the performance of MSMEs because it helps make the right decisions, maintain liquidity capabilities, and increase business competitiveness (Hasibuan *et al.*, 2022) . Research conducted by (Boernamawatie *et al.*, 2023) shows that financial planning, transaction recording, and cost control activities have a major impact on the revenue growth and operational efficiency of MSMEs. Meanwhile, research (Farouk *et al.*, 2022) It found that structured and transparent financial statements can increase investor confidence and open access to financing, which ultimately has a positive impact on business performance. Findings presented by (Sukarno & Data, 2022) It is clear that a strong understanding of financial issues greatly improves the management skills of MSME actors, which in turn encourages more sustainable company development. Therefore, the hypothesis that is the basis of this research is as follows:

### H2 : Financial Management Affects MSME Performance

## RESEARCH METHODS

Primary data is used as a source in this quantitative research strategy. There are 99,397 micro, small, and medium enterprises (MSMEs) in Karawang Regency that are the population of this study. The researchers used the Slovin formula to determine the sample size. The researchers selected 100 units as a representative sample of the population. The researchers used purposive sampling, where they established explicit criteria that were used in the selection of study participants. Owners of micro, small, and medium enterprises (MSMEs) in Karawang Regency who have been operating for about a year are the selection criteria. Data was collected through questionnaires. This study uses the following variables: digital divide (X1), financial management (X2), and MSME performance (Y). With the help of Smart PLS 4.0 software, this study uses the PLS approach to analyze the relationship between independent and dependent variables.

## RESULTS AND DISCUSSION

### Research Results

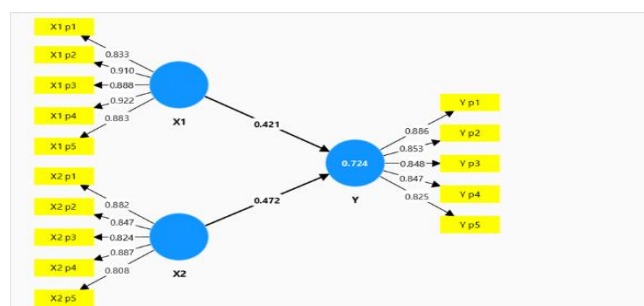
#### Outer Model Analysis

1. Convergent Validity Test
2. Variance Extracted Test
3. Composite Reliability Test
4. Cronbach's Alpha Test

#### Convergent Validity Test

Model calculations performed using SmartPLS resulted in load factor values for all variable indicators greater than 0.70. The Average Variance Extracted (AVE) test can be used to continue the investigation.

**Figure 2**  
SmartPLS Model



Source: SmartPLS 4, 2025

**Variance Extracted Test**

**Table 1**

Avarage Variance Extracted (AVE) Value

	Avarage Variance Extracted (AVE)
X1	0,778
Y	0,726
X2	0,723

Source: *SmartPLS 4, 2025*

The AVE value for all variables is greater than 0.5, as shown in the table above. Since the convergent validity model does not show any problems, we can conclude that the variables in this study have adequate discriminative validity.

**Composite Reliability Test**

Measurement of the reliability of latent variables is another way to test external models, in addition to convergent validity and the average of extracted variance (AVE). Convergent validity, which is determined using indicator blocks for each variable, is used to test this reliability.

**Table 2**

Composite Reliability

	Composite Reliability (rho_a)
X1	0,933
Y	0,909
X2	0,906

Source: *SmartPLS 4, 2025*

According to the data in the table, the Composite Reliability value for all variables is higher than the threshold limit of 0.70. All variables in this study were found to have a high level of reliability according to the standards that have been set.

**Cronbach's Alpha Test**

External model assessment involves assessing the convergent validity, the extracted mean of variance (AVE), composite reliability, and Cronbach's Alpha value, which is an indicator of latent variable reliability. If the value of Cronbach's Alpha is greater than 0.60, then that variable is considered reliable.

**Table 3**

Cronbach's Alpha

	Cronbach's Alpha
X1	0,933
Y	0,906
X2	0,904

Source: *SmartPLS 4, 2025*

All constructions have a Cronbach's Alpha value greater than 0.60, as seen in the table above. Based on the criteria that have been set, it can be concluded that all variables in this study have excellent reliability.

**Analysis of the inner model**

The R-squared (R<sup>2</sup>) and F-squared (F<sup>2</sup>) values are used to evaluate the internal model in two different ways.

**R-square analysis**

The R<sup>2</sup> value indicates the ability of exogenous factors to explain variations in endogenous factors. When it comes to understanding the relationships between variables, a higher R<sup>2</sup> value indicates that the model is more predictive.

**Table 4**

R-Square

	R-square	R-square adjusted
Y	0.724	0.718

Source: *SmartPLS 4, 2025*

The table shows an R<sup>2</sup> value of 0.724. This number is high according to the interpretation requirements, so exogenous variables can be said to explain most of the variation in endogenous variables.

**F-square Analysis**

To determine how much influence independent variables have on dependent variables, the researchers in this study calculated the value of F<sup>2</sup>. According to standard measurements, F<sup>2</sup> values of 0.02 are considered small, 0.15 medium, and 0.35 large. At the same time, F<sup>2</sup> values below 0.02 are not statistically significant and can be ignored. Here are the results of the calculation of the F<sup>2</sup> value in this study:

**Table 5**

F Square

	F-Square
X1 > Y	0,214
X2 > Y	0,270

Source: *SmartPLS 4, 2025*

The data from the table above show that both X1 and X2 have moderate significance, with X1 having an F<sup>2</sup> value of 0.214 and X2 having an F<sup>2</sup> value of 0.270. This means that the influence of the two independent factors on the dependent variables is mild.

**Bootstrapping Results**

In the SmartPLS study, the research sample was used to simulate the bootstrapping approach, which tests each relationship between variables.

**Table 6**

Path Coefficients

	Original sample (O)	Sample mean (M)	Standard deviation (STDEV)	T statistics ((O/STDEV)	P values
X1 > Y	0.421	0.418	0.078	5.405	0.000
X2 > Y	0.472	0.478	0.081	5.805	0.000

Source: *SmartPLS 4, 2025*

The table above shows that X1 has a positive influence on Y, since the value of the parameter coefficient between the two variables is 0.421. This means that a decrease in integrity or an increase in

access to technology is equivalent to an increase in one unit in the digital alignment variable, which in turn increases the performance of MSMEs by 42.1%. We can conclude that X1 has a positive and significant influence on Y, since the T-statistical value of 5.405 ( $>1.96$ ) and the P-value of 0.000 ( $<0.05$ ) support this observation.

X2 has a positive influence on Y, as shown by the value of the parameter coefficient of 0.472 between the two variables. In other words, there was an increase in MSME performance of 47.2% for every increase of one unit in the financial management variable. The positive and significant impact of X2 on Y can be inferred from the T-statistical value of 5.805 ( $>1.96$ ) and the P value of 0.000 ( $<0.05$ ), so this conclusion is supported.

## Discussion

### The Influence of the Digital Divide on MSME Performance

The results of the study show that the gap *digital* greatly affects the ability of small and medium enterprises (MSMEs). The smaller the difference in access *digital* experienced by business actors, the better their chances are to improve work efficiency, expand markets, and create technology-based businesses. So, reducing the gap *digital* not only about social justice, but also strategic ways to improve the performance of MSMEs regularly and sustainably (Bahta et al., 2021). This is also in accordance with the theory *Resource-Based View (RBV)*, which states that the ability to access and use technology *digital* is an internal force that is valuable and difficult to hijack, so it can be a competitive advantage that lasts for a long time (Nakhwah, 2025). MSMEs that successfully overcome barriers in accessing devices, internet networks, and understanding of technology *digital* will be better able to adapt to market changes and increasingly consumer habits *digital* (Nuraeni et al., 2024).

These findings are in accordance with research conducted by (Yang & Deng, 2023), which says that digitalization helps improve business efficiency and resilience. In addition, research by (Rafiah et al., 2022) also emphasized that readiness to adopt digital technology is essential in accelerating business change. On the other hand, research by (Istifadah & Tjaraka, 2021) demonstrate that the use of technology *digital* to help MSMEs in following market changes, while reducing differences in competitiveness between business actors.

### The Influence of Financial Management on MSME Performance

The results of financial management research have proven to have an important influence on the performance of MSMEs, because it includes a series of integrated activities ranging from planning, recording, control, to periodic financial evaluation. Thus, financial management is not just an administrative function, but a strategic instrument that determines the smooth operation, resilience to economic shocks, and the achievement of optimal MSME performance (Liku Datu et al., 2023). This is in line with the theory *Resource-Based View (RBV)*, financial management capabilities reflect strategic internal resources because they are specific, not easy to replicate, and contribute directly to business efficiency (Nakhwah, 2025). MSMEs with a good financial system are able to allocate funds appropriately, maintain liquidity, and increase trust from external parties, including banks and investors (Azizi et al., 2024). These results are consistent with the findings (Jung et al., 2021) which suggests that open financial reporting increases the availability of capital. (Ahmad et al., 2022) emphasizing the importance of financial literacy in improving the managerial abilities of business actors. In addition, a study conducted by (Kalra, 2023) It also found that disciplined financial practices have a positive impact on business efficiency and revenue. In the context of MSMEs in

Karawang which still rely heavily on manual recording, increasing financial management capacity is an urgent need so that business actors are able to survive and compete professionally in the midst of market dynamics (Laughter et al., 2022). Effective financial management not only supports short-term operations, but also serves as a strategic foundation for sustainable growth, as described in the RBV framework (AlShamsi & Nobanee, 2020)

## CONCLUSION

The results of this study show that micro, small, and medium enterprises (MSMEs) in Karawang Regency are positively and significantly affected by the digital divide. If the digital divide is reduced, business actors will have greater access and better ability to utilize information and communication technology (ICT). The higher the efficiency of operations, the opportunity to expand the market, and the competitiveness of them. In addition, the way of financial management also has a good and real effect on the performance of MSMEs. The ability of business actors to plan, record, control, and evaluate finances in a structured manner supports business stability, efficient use of funds, and increases trust from external parties such as banks and investors. Both of these things reflect strategic internal capabilities based on the *Resource-Based View (RBV)* approach, which can drive competitive advantage and business continuity.

### Implication

The results of this study show that digital imbalances and financial management methods have a significant positive impact on the performance of MSMEs, so it is necessary to increase understanding of digital, provide technology facilities, training in the use of business applications, and improve the ability to manage finances in order to increase efficiency, competitiveness, and business stability. For the next research, it is recommended to expand the research area, involving different types of MSMEs, as well as explore additional variables such as product or service innovation, access to funds, network cooperation, and further digital capabilities, in order to obtain results that can affect the performance of MSMEs.

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