


Chapter 8

Financial Technology and Business Performance Among Small Medium Enterprises (SMEs) in Indonesia

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ABSTRACT

Business performance is one of the most critical measurements for business owners to achieve their targets. Business performance is a result of company activities at a particular time. The small-medium enterprises have functioned as a leading economic activity, creators of job opportunities, an essential developing business local economy and community empowerment, creators of new markets, and become a source of innovation. The contribution of SMEs is more significant than the contribution of large enterprises. SMEs have expanded employment opportunities, established a gross domestic product, and provided a safety net mainly for low-income people to carry out productive economic activities. Competitive SMEs often play a role in increasing the country's economy and leading to the development of the global economy. Furthermore, financial technology (Fintech) plays a significant role in the business performance of SMEs by improving the scalability, accessibility, and efficiency of financial services. Digital payments and peer-to-peer lending are part of fintech solutions for SMEs.

INTRODUCTION

Financial technology is accessible to the public (Yigitcanlar et al., 2021). A wide range of products in the financial sector are easily accessible. In addition to being easily accessible, financial technology is also related to information innovation that changes traditional financial services to modern ones. For example, a) Improving access to world banking makes it easy to do business. b) New entrepreneurs emerged by simply selling goods on the internet. c) Traders who do not have conventional stores to sell

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their products can peddle their products and services through various media, such as social media and websites with particular applications.

Financial technology (fintech) has played a massive role in modernizing financial services (Shadrack Obeng et al., 2024). Here are some of the ways fintech is changing the financial services landscape. a) Easier accessibility: By using digital applications and platforms, consumers can access financial services such as banking, loans, investments, and payments more easily and quickly through their devices (smartphones, computers). The digital application provides convenience, especially for areas where traditional banks are underserved. b) Service automation: Many financial services can now be accessed automatically without direct interaction with bank officers. For example, chatbots and virtual assistants can instantly help customers with various transactions or questions. c). Enhanced security: Fintech integrates multiple advanced security technologies, such as data encryption, two-factor authentication, and biometrics, to keep users' financial information safe. Blockchain technology also plays an essential role in improving the transparency and security of financial transactions. d) Cost and time savings, with automated processes and technology, operational costs have become more efficient and can be passed on to consumers through lower service costs. In addition, financial transactions can be completed in less time. e) Financial product innovation: Fintech has introduced various new products, such as peer-to-peer lending, robo-advisors, and micro-investment services that allow people with limited capital to participate in the financial markets. f) Financial inclusion, fintech allows more people, including those who do not have access to traditional banks, to obtain financial services. Fintech can increase financial inclusion, especially for those in remote areas or with lower economic conditions. g) Service personalization: With advanced data analytics, fintech can offer services that are more tailored to individual needs.

Financial technology has moved to a better condition due to rapid growth, development, and modernization (Ikromov, 2024). The paradigm shift to be better in financial technology raises new challenges most important for SMEs. For financial technology to be better, it needs to be regulated by the regulator. Regulators and market participants increase the potential benefits of innovation. SMEs and business people need regulatory intervention to support financial technology development. Government intervenes to optimize the function of financial technology in financial institutions and business communities by arranging transactions.

The government has an essential role in optimizing the function of financial technology in financial institutions and the business community, one of which is through regulatory interventions that regulate financial transactions (Astriawati, 2024). Government intervention in regulating financial technology aims to create a safe, fair, and sustainable ecosystem to optimize the potential of fintech in supporting economic development and inclusion.

Furthermore, financial technology consists of payment systems and peer-to-peer lending (Hidayat et al., 2020). The development of the payment system involves a significant volume of transactions undertaken by the community. Fintech has disrupted traditional financial systems by offering faster, cheaper, and more user-friendly alternatives to conventional banking and financial services (Kumar et al., 2023). For SMEs, FinTech has emerged as a game-changer, addressing many of the challenges they face, such as limited access to credit, high transaction costs, and inefficient payment systems. Traditionally, the payment system segregates creditors and debtors. The cash payment system develops from the commodity of a non-cash payment system to document clearance (checks, current accounts, and debit records) based on electronic (electronic cards or electronic money). The payment systems are essential (De Luna et al., 2019; Akanfe et al., 2020). Transactions occur in the payments community. The payment system

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