

# Islamic Financial Management Practices and Business Performance in Small Industrial Companies

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## Abstract

This study aims to examine the effect of Islamic financial literacy, investment decisions, funding decisions, and working capital on business performance in small halal industries (IK) in Ternate. The respondents involved were 53 IK. This research is quantitative and descriptive. Data was collected using online questionnaires, namely, google forms and interviews. This study uses a simple random sampling technique in producing the research sample. The data analysis technique used multiple regression models and research hypothesis testing. The results showed that the financial literacy of IK owners was moderate and had no effect on business performance. Investment decisions of IK players are relatively good and do not affect business performance. The funding decisions of halal IK actors are rather good and impact business performance. The findings of this study are that working capital is classified as very good and has a positive and significant effect on IK business performance. Furthermore, working capital has a dominant impact on business performance, as seen from the bear value of the t table compared to 3 (three) other variables. This research implies that it can be used as a support for strategic decisions regarding the development of IK in the city of Ternate, that IK owners need to develop financial literacy, investment decisions, and appropriate funding decisions as well as manage the company's working capital effectively and efficiently so that the achievement of business performance is better.

**Keywords:** Islamic Financial Literacy; Investment Decisions; Funding Decisions; Working Capital; Business Performance

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## Introduction

Islamic financial management practices are indispensable for all companies. Possessing, obtaining, and analyzing financial information is vital for all successful businesses (Setyawan et al., 2020). Managers must understand the meaning of financial data and follow regulations that affect the company's financial statements (Hamzah et al., 2018). Must take financial decisions by the science of financial management (Arsyad et al., 2021; Hasanuddin et al., 2021; Ahmad & Muslim, 2022). All companies and their financial statements have their characteristics, so financial managers must make decisions (Setia Mulyawan, 2015; Nurwanah et al., 2021). The purpose of this research is to determine the extent of financial management practices used by SMEs and their impact on business performance. The specific finding of this study is to assess the effect of working capital management practices, investment practices, financial planning practices, accounting information systems, financial reporting, and analytical practices on IKM business performance. Data from the Department of Industry and Trade of the City of Ternate shows more than 1,250 small and medium enterprises. Sound financial management practices have been seen as a critical element in the success of SMEs in developing countries. Although SMEs positively contribute to economic growth and development in Indonesia, the failure rate is still high. As used in this study, financial management consists of five constructs: working capital management, divided into cash management, accounts receivable management, and inventory management.

The results of the BPS survey (September 2020) explained that there was a decline in the income of micro and small businesses by 84% and 82% in large and medium enterprises. The sharpest declines occurred in the accommodation, food and beverage, other services, transportation and warehousing, construction, manufacturing, and trading sectors. Furthermore, the survey conducted by the Asian Development Bank (ADB) in April-May 2020 was only in 4 countries, namely Indonesia, the Philippines, Thailand, and Laos, with 3,831 MSME respondents with one basis for consideration, namely the contribution of MSMEs to Gross Domestic Product in 4 countries. Then 50%. The implementation of the restriction on area 3 turned out to hurt MSMEs, and some MSMEs are still operating with incomes that have decreased by more than 40%. Based on the results of the ADB survey, we can see that 61.1% of MSMEs in Indonesia reduced workers in March 2020, 59.8% of MSME workers in March 2020, and 59.8% of MSMEs reduced workers in April 2020. The reduction of workers was carried out on a large scale in March-June 2020 and continues until October 2020. MSMEs are among the sectors most affected by the Covid-19 pandemic. In 2018, the workforce absorbed from Micro, Small, and Medium Enterprises was 117 million people. This figure increased slightly from the previous year, 116.4 million people. The details are 107.4 million from micro-businesses, 5.8 million small businesses, and 3.7 million medium businesses. Meanwhile, the total MSMEs in Indonesia in 2018 was 64.2 million, increasing from the previous year, 62.9 million. MSMEs also contributed up to IDR 8,573.9 trillion to the Indonesian economy, higher than large businesses, which amounted to IDR 5,464.7 trillion.

Various countries in the world have carried out financial literacy movements successfully. They view that Financial Literacy is a strategic program as urgent as other national programs, so Financial Literacy is one of the priority programs for many countries, such as Canada, Australia, India, the USA, the UK, etc. Gearing financial literacy into a long-term national program and its implementation involves many parties (Yushita, 2017). The objective of the Islamic Financial

Literacy development program is to expand and improve knowledge, understanding, and public participation in the use of Islamic financial products and services. Islamic financial literacy is expected not only to increase general knowledge but also to change people's behavior in managing finances better, being able and intelligent to choose halal and profitable investments, able to prevent people from following fraudulent investments that often appear in the community.

One of the MSME sectors contributing to GDP and labor is the small industrial sector. Efforts to develop small industries pay great attention to government, banking, private sector, non-governmental organizations, and international institutions. This business has a significant role in expanding employment, increasing people's income to reduce unemployment, and driving economic growth. Not only do small industries in Indonesia dominate, but they can also survive the global crisis (Yushita, 2017). The low financial literacy of MSME actors is a challenge for financial service providers to present the right solution, namely socialization and education through better financial planning and management, to protect them from unhealthy businesses in the financial market (Fitriasari, 2017). Financial literacy is knowledge, skills, and beliefs that influence attitudes and behavior to improve the quality of decision-making and financial management to achieve prosperity (PP number 114 of 2020 concerning the national strategy for inclusive finance). A survey conducted by the Financial Services Authority in 2016 stated that MSMEs were considered the most critical sector in the national economy because their contribution reached 58.92% of GDP (Gross Domestic Product). Therefore, through OJK, the government continues to improve education about financial literacy for all elements, especially MSMEs. The education carried out by the government through the OJK is based on the OJK Law on Consumer Education and Protection articles 28, 29, and 30. In these articles, it is explained that consumer protection is a basic need. Consumer confidence is a prerequisite for maintaining stability and growth in the long term. This education aligns with Indonesia's National Financial Literacy Strategy (SNLK), which targets a well-literate society in 2017 (Aribawa, 2016).

Working capital is an essential indicator for companies to assess the ability to generate profits. With working capital, the company's daily activities will run well and sustainably. So, in this case, the company needs working capital. Moreover, it is also necessary to maintain the sustainable development of the company, to finance daily business activities (Nurjanah & Nurmayanti, 2019). The amount of working capital must be by the company's needs because both excess and lack of working capital harm the company. Excessive working capital, significantly cash and securities, can damage the company because it causes significant funds to accumulate without productive use (Naryono, 2019).

The Financial Services Authority (OJK) stated that financial literacy is related to knowledge, abilities, attitudes, and behavior towards finance and one's skills and trust in financial institutions. Islam has paid attention to literacy and provides direction to finance because financial literacy needs to be applied at every stage of life. Seeing the many benefits of managing finances well, planning finances, and understanding the importance of saving, people will also understand financial products. Financial institutions because the public and financial institutions are interconnected (Rohman, 2021). Financial managers must make many decisions in financial management activities and carry out various actions. It becomes essential when a manager has to decide on the management function. There are three primary financial management decisions: investment decisions, funding, and asset management decisions (Nopiyani, 2021).

The analysis results show that financial literacy positively and significantly affects

financial performance (Amin, 2021). The results of this study are different from the results of research conducted by (Padli et al., 2019), which states that banking literacy harms the interest of MSMEs to use bank loan facilities for business funding needs. Sardiana, (2016) shows that financial literacy does not create a desire to access banking economic alternatives. This is due to the perception of risk felt by MSME actors. This research is a renewal of study conducted by (Deviana, 2019) regarding the Analysis of Islamic Financial Literacy on the Performance of Micro, Small, and Medium Enterprises (MSMEs) in the Manufacturing Sector in Bandar Lampung so that researchers use Islamic Financial Management Practices and Business Performance in Small Industrial Companies in Ternate City in this study.

Management is said to have complied with the Shari'ah if It attaches importance to behavior related to the values of faith and monotheism, Emphasizing the existence of an organizational structure, and discussing the system. This system is structured so that the behavior in it runs well Islamic Financial Management Function (Harahap, 2017). In the context of sharia, if the shareholders achieve prosperity, the greater the Zakat issued/paid by the shareholders. Investment decisions relate to the problem of how financial managers allocate funds in the form of investments that will bring profits in the future (Husen Sobana, 2018). The form and composition of the investment will affect and uphold future profits. The decision for profit sharing or dividends is a decision by financial management to determine 1) The percentage of profit that is distributed to investors and shareholders in the form of chas 2) Stability of profit sharing and dividends distributed 3) Stock dividends 4) Stock split 5) Recall of outstanding shares This is all done to increase the prosperity of the shareholders. d. The decision of zakat company Zakat is religious teaching related to one's success in this world and the hereafter. The amount of Zakat issued by the company shows that it has succeeded in its business. This is because corporate Zakat is a company expense based on mishaps and haul. 15 Nishab indicates the amount of property that must be the tithe. This relates to the time limit of an asset that can be zakated (Izzaty & Kurniawan, 2018).

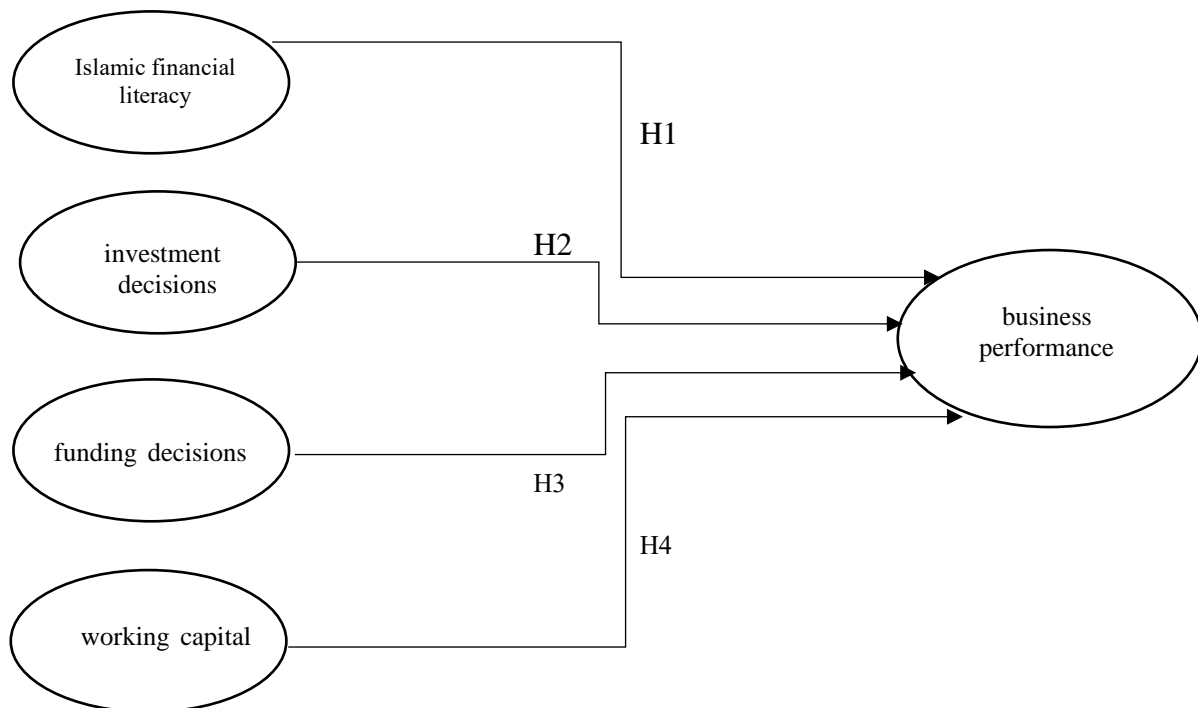
Islamic financial literacy can be interpreted as Islamic financial literacy, namely knowing Islamic financial products and services and distinguishing between conventional banks and Islamic banks and can influence a person's attitude in making economic decisions by sharia. Another understanding states that Islamic financial literacy is a person's ability to use financial knowledge, skills, and attitudes to manage their financial resources by Islamic teachings (Hafizah, 2016). Referring to the definition of financial literacy by the OJK, Islamic financial literacy can be interpreted as consumers of sharia financial products and services, and the wider community is expected to not only know and understand sharia financial service institutions and sharia financial products and services but also how to change and improve people's behavior. In the management of Islamic finance to enhance the community's welfare (Agustianto, 2013).

Funding decisions are decisions related to how companies get funds or capital. Therefore, funding decisions are often called capital structure policies. Funding is issued to support planned investments, either alone or others (Fajaria, 2015). Investments are based on analysis, and the main objective is to promise the principal amount invested and get an acceptable risk. The practice of funding is not new; it may have existed for as long as the trading aspect has existed, investors are present in all settings around the world (Levišauskait, 2010). Investment decisions are decisions to allocate sources of funds or what funds will be used for. The efficiency of using funds will directly determine the size of the level of profit generated from these investments (Syahyunan,

2013). Financial managers must allocate funds into forms of investment that will bring profits in the future. According to Sutrisno (2013), investment decisions are a matter of how financial managers must allocate funds into forms of investment that will bring profits in the future. Investment decisions are decisions to allocate capital or funds owned to invest in the company. The investors carry out various analyzes in supporting their money so that the profits from these investments are optimal. Investment decisions are decisions taken by investors to buy company assets (Sudana, 2011). Investments made are not only for investment in other entities but also for activities or projects planned or carried out.

The company's working capital is significant to find out the current working capital situation; then, it relates to the financial crisis faced in the future (Kristianti, 2021). The company's performance is one of the critical indicators because it can show its management ability in managing its capital. Performance results from various activities carried out by utilizing multiple available sources, measured using specific standardized measures. (Muhajir, 2020). So can conclude that financial performance measures how well a company can utilize its resources to generate profits. It can also use financial performance to gauge its financial health over some time. can also use it to compare several similar companies in one industry, or to compare several sectors on average. (Tisna, 2017)

In this study, the conceptual framework will look at the relationship between Islamic financial management practices used by SMIs and their effect on business performance. The dependent variable is the sales growth of SMEs, while the independent variable is working capital management practices, investment practices, financial planning practices, accounting and reporting information systems, and financial analysis described as



**Figure 1. Research Conceptual Framework**

**H1:** Islamic financial literacy affects the business performance of SMEs in Ternate City.

**H2:** Funding decisions affect the business performance of SMEs in Ternate City.

**H3:** Investment decisions affect the business performance of SMEs in Ternate City.

**H4:** Working capital affects the business performance of IKM in Ternate City.

## Research Design and Method

The method used in this research is quantitative and descriptive research methods. Data was collected using online questionnaires, namely, google forms and interviews. This study uses a simple random sampling technique in producing the research sample. The data analysis technique used a multiple regression model and research hypothesis testing. Data were analyzed using inferential and descriptive statistics (SPSS). Researchers use this software for easy and precise data analysis. The use of descriptive statistics allows the researcher to describe the independent factors in the study meaningfully and helps to indicate the number and percent of respondents' rates and ranking variables in this study. The technical analysis includes the Validity and Reliability Test, Classical Assumption Test consisting of multicollinearity test, autocorrelation test, heteroscedasticity test, normality test, hypothesis testing, and Multiple Linear Regression Analysis, F test (simultaneous), t-test (partial).

**Table 1. Variables / Item Measurement**

Variable	Code	Item / Construct	Major Reference
Performance business	<ul style="list-style-type: none"> <li>• PB.1</li> <li>• PB.2</li> <li>• PB.3</li> <li>• PB.4</li> <li>• PB.5</li> <li>• PB.6</li> <li>• PB.7</li> </ul>	<ul style="list-style-type: none"> <li>• Sales growth</li> <li>• Capital growth</li> <li>• Profit growth</li> <li>• Market growth</li> <li>• Labor growth</li> <li>• Customer growth</li> <li>• Asset growth</li> </ul>	(Munizu, 2010) (Purwaningsih & Kusuma, 2015)
Financial Literacy	<ul style="list-style-type: none"> <li>• FL.1</li> <li>• FL.2</li> <li>• FL.3</li> <li>• FL.4</li> <li>• FL.5</li> <li>• FL.6</li> <li>• FL.7</li> </ul>	<ul style="list-style-type: none"> <li>• Account ownership in the name of the company</li> <li>• Company identification at account opening</li> <li>• Minimum deposit when opening an account</li> <li>• Knowledge of savings guarantees</li> <li>• Understanding of the potential return on savings in one year</li> <li>• years Understanding of the calculation of loan interest per year</li> <li>• Knowledge of the effect of inflation on the value of money</li> </ul>	(Deviana, 2019)
Funding Decisions	<ul style="list-style-type: none"> <li>• FD.1</li> <li>• FD.2</li> <li>• FD.3</li> <li>• FD.4</li> <li>• FD.5</li> <li>• FD.6</li> <li>• FD.7</li> </ul>	<ul style="list-style-type: none"> <li>• Make financial planning</li> <li>• Capital loans from Islamic banks</li> <li>• Additional funds from non-bank institutions</li> <li>• Sharia micro finance</li> <li>• Sharia loan costs are not burdensome</li> <li>• Payback period</li> <li>• Credit collateral conditions</li> </ul>	(Rahmanto, 2017)
Investment Decision	<ul style="list-style-type: none"> <li>• ID.1</li> <li>• ID.2</li> <li>• ID.3</li> <li>• ID.4</li> <li>• ID.5</li> </ul>	<ul style="list-style-type: none"> <li>• Monthly investment planning</li> <li>• Knowing investment risk</li> <li>• Lower risk of deposits in Islamic banks</li> <li>• Saving every month from business results</li> <li>• Saving money in conventional bank</li> </ul>	(Rahmanto, 2017)



	<ul style="list-style-type: none"> <li>ID.6</li> </ul>	<ul style="list-style-type: none"> <li>Part of the results of each month paying zakat, infaq &amp; sadakah</li> </ul>	
Working Capital	<ul style="list-style-type: none"> <li>WC.1</li> <li>WC.2</li> <li>WC.3</li> <li>WC.4</li> <li>WC.5</li> <li>WC.6</li> <li>WC.7</li> <li>WC.8</li> <li>WC.9</li> <li>WC.10</li> <li>WC.11</li> </ul>	<ul style="list-style-type: none"> <li>Cash receipts recorded</li> <li>Cash disbursement</li> <li>Cash ability to finance daily needs</li> <li>Accounts receivable policy flexibility</li> <li>inventory adequacy</li> <li>Often owes raw materials</li> <li>Payment of trade payables smoothly and on time</li> <li>Working capital loans from Islamic financial institutions</li> <li>Working capital increases business results</li> <li>The size of the loan has an impact on business income</li> <li>Assistance from capital from the local government</li> </ul>	(Ariska et al., 2020) (Gea, 2020)

## Results and Discussion

### Statistical Result

IKM companies in Ternate City are still in the small business category. The amount of sales turnover of respondents every month is Rp. 6,000,000 to Rp. 10,000,000 as many as 32 IKM. Alternatively, 6%, then sales turnover is less than Rp. 5,000,000 - as many as 16 respondents or as much as 30.77%. This shows that the ability of IKM companies in Ternate City still needs to carry out various strategies, mainly production and marketing strategies, to maximize sales turnover every month.

**Table 2. Responden Character**

Criteria	Deskription	N	%
Gender	Male	3	5,66
	Female	49	94,23
IKM companiesin Ternate	3-4	26	50
	5-6	21	40,38
Education Level	SLTA	27	51,54
	S1	12	23,08

Source: Output SPSS, (2021)

The validity and reliability testing results, as shown in table 3, show that all statement items in the questionnaire are valid, and all of them have a Total Pearson Correlation value greater than 3. In addition, all instruments used in this study are reliable because all of them have Cronbach's scores. Alpha is more significant than 0.6, and none is below 0.6.

**Table 3. Validity dan Reliability Test Result**

Variable	Instrument	r-calculated	Cronbach Alpha	Info
Financial Literacy	LK.1	0,412	0,672	Valid and reliabel
	LK.2	0,407		
	LK.3	0,312		
	LK.4	0,354		
	LK.5	0,496		
	LK.6	0,385		

	LK.7	0,489		
	LK.8	0,733		
	LK.9	0,485		
	LK.10	0,330		
	LK.11	0,476		
	LK.12	0,355		
	LK.13	0,653		
Funding Decision	KP.1	0,373	0,632	Valid and reliabel
	KP.2	0,303		
	KP.3	0,327		
	KP.4	0,367		
	KP.5	0,491		
	KP.6	0,459		
	KP.7	0,506		
	KP.8	0,485		
	KP.9	0,462		
	KP.10	0,706		
	KP.11	0,654		
Investment Decision	KI.1	0,327	0,628	Valid and reliabel
	KI.2	0,454		
	KI.3	0,534		
	KI.4	0,584		
	KI.5	0,563		
	KI.6	0,676		
	KI.7	0,504		
	KI.8	0,542		
	MK.1	0,378		
	MK.2	0,393		
	MK.3	0,339		
	MK.4	0,459		
	MK.5	0,371		
	MK.6	0,368		
	MK.7	0,414		
Working Capital	MK.8	0,474	0,688	Valid and reliabel
	MK.9	0,328		
	MK.10	0,404		
	MK.11	0,327		
	MK.12	0,453		
	MK.13	0,413		
	MK.14	0,459		
	MK.15	0,379		
	MK.16	0,382		
	KB.1	0,317		
	KB.2	0,664		
	KB.3	0,602		
	KB.4	0,589		
Business Performance	KB.5	0,419	0,665	Valid and reliabel
	KB.6	0,467		
	KB.7	0,424		
	KB.8	0,558		
	KB.9	0,398		
	KB.10	0,439		
	KB.11	0,413		

Source: Output SPSS, (2021)



Figure 2 shows that the data spreads around the diagonal line and follows the diagonal direction, so the data used is normal.

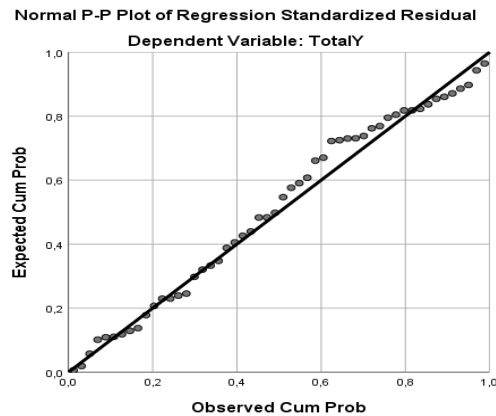


Figure 2. Normality Test Results

Table 4 shows that each independent variable has a tolerance value  $> 0.1$  and a VIF value  $< 10$ . So, it can be concluded that there is no multicollinearity between the independent variables in this regression model.

Tabel 4. Result test Multikolinearitas

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	4,500	8,499		,530	,599		
	LK (X1)	,188	,110	,218	1,705	,095	,921	1,086
	KP (X2)	,164	,109	,186	1,505	,139	,978	1,022
	KI (X3)	,198	,158	,164	1,253	,216	,879	1,138
	MK (X4)	,244	,097	,322	2,512	,016	,913	1,096

a. Dependent Variable: totally

Figure 3 shows that the points spread randomly and are spread both above and below zero on the Y axis. It can be concluded that there is no heteroscedasticity in this regression model.

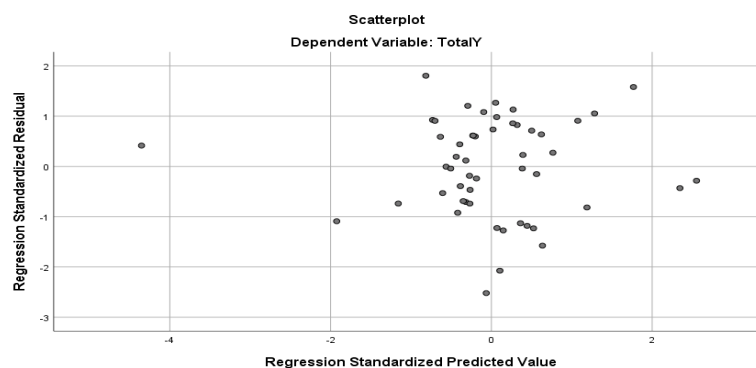


Figure 3. Heteroscedasticity Test Results

Based on the results of multiple regression analysis on the F-test in table 5 shows the value of F-calculated (4.907) > F-estimated (3.18) and the value of sig. (0.002) < (0.05) which means significant.

**Tabel 5. Result Regression test F**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	258,269	4	64,567	4,907	,002 <sup>b</sup>
	Residual	618,404	47	13,158		
	Total	876,673	51			
a. Dependent Variable: totally						
b. Predictors: (Constant), TotalX4, TotalX2, TotalX1, TotalX3						

Source: Output SPSS, (2021)

**Tabel 6. Result Regression test t**

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	4,500	8,499		0,530	0,599
	LKS (X1)	0,188	0,110	0,218	1,705	0,095
	KP (X2)	0,164	0,109	0,186	1,505	0,139
	KI (X3)	0,198	0,158	0,164	1,253	0,216
	MK (X4)	0,244	0,097	0,322	2,512	0,016

Source: Output SPSS, (2021)

Table 6 shows that the regression equation based on the results of statistical analysis can be shown in the following equation:

$$Y = 4,500 + 0.188X_1 + 0.164X_2 + 0.198X_3 + 0.244X_4$$

The value of the multiple regression coefficients can explain that among the four independent variables, namely Islamic Financial Literacy, funding decisions, investment decisions, and working capital. Working capital provides a more significant contribution to business performance in small halal industrial companies in Ternate City. With a coefficient value of 0.244. This means that working capital has a vital role in successfully implementing small industrial businesses. Meanwhile, for financial literacy, funding decisions and decisions are supporting factors that are no less important. However, based on the results of this study, the multiple regression coefficient values obtained are not significant.

The results of the statistical research test explain that simultaneously or together, Islamic financial Literacy, funding decisions, investment decisions, and working capital have a significant effect on business performance. From the equation, it is known that if the four independent variables are applied simultaneously, the impact of working capital is more significant than the other three variables. The results of the study also explained that the value of  $R^2 = 0.406$  or the coefficient of determination explained the variability of the four independent variables on the dependent variable of 40.6%, meaning that the influence of the four independent variables could explain changes in the dependent variable of 40.6%, while the rest was 59.4% influenced by other variables. Thus, the four variables in this study are not the most decisive; other variables affect the IK business performance variable.

### **Discussion**

The results of testing the first hypothesis (H1) show that Islamic financial Literacy does not affect business performance in small halal industrial companies in Ternate City. This provides information that knowledge about financial management, in general, is perfect. This finding supports Sutrisno's, (2013) research results, stating that banking literacy does not affect the interest of MSMEs to use credit even though they already know the alternative funding for MSMEs. Financial Literacy has no significant effect on the performance of MSMEs in Palembang City. The indicator that has the lowest average is the Knowledge question about savings guarantees. Although the overall level of MSME Financial Literacy is at a moderate or medium level, it does not affect business performance. Can interpret that the Financial Literacy of IK actors in the Halal Small Industry in the city of Ternate seems to have not yet known alternative efficient financial decisions and the lack of skills in financial management that has generated intense interest by IK actors in the use of working capital loans is still minimal. However, the high confidence of business actors in Islamic banking financial institutions indicates that there is still interest in using working capital loans. Financial Literacy is needed to plan finances well (Fitria et al., 2020). Nkundabannyanga et al., (2014) also state that financial Literacy is the ability of an individual to make informed judgments in terms of effective decision making related to the use and management of finances. Yushita, (2017) Research results, in general, show that there is still a low level of financial Literacy in developed countries and even more so in developing countries, including Indonesia. This condition is a serious problem considering that financial Literacy positively affects financial inclusion and behavior. The findings of this study are different from the results of previous studies by Hidayat, (2021). Financial Literacy has a positive and significant effect on the growth of Primary MSMEs (2020), which was carried out in Denpasar City using 100 MSMEs as respondents. This study shows a significant influence between financial Literacy on the performance and sustainability of MSMEs.

The results of testing the second hypothesis (H2) indicate that the source of financing policy does not affect business performance in small halal industrial companies in Ternate. This shows that funding decisions do not affect the level of business performance. Companies and managers are expected to pay attention to essential decisions to be a reference for determining the company's strategy in improving the company's business performance. Funding decisions are financial management decisions to obtain funds. The funding decision will guide the company in determining the number of funds, the source of funds, and the ability to finance its strategy to improve company performance. Small industrial business actors will use IK's financial portion to carry out their strategy. Thus, IK needs to determine a business strategy to increase the company's value. The business strategy that IK can apply is a business strategy based on increasing competitive advantage. This strategy focuses on the company's competitive strategy. One of the most influential things is the difficulty of obtaining capital either to build a business or to use it for development. The government has tried to bridge this problem by launching the People's Business Credit (KUR) program. However, many aspects are considered by small business actors to participate in the program. The difficulty of the bureaucracy in managing is also one of the factors that hinder small businesses from participating in the program, which consequently hampers the development of these businesses. This research is supported by (Khoirun Nisa'Ayu, 2019; Pramestiningrum & Iramani, 2020), which shows that the source of financing policy does

not affect business performance in small industrial companies.

The results of testing the third hypothesis (H3) indicate that investment decisions do not affect business performance in small halal industrial companies in Ternate. This shows that investment decisions do not affect the high and low performance of the company's business. Companies and managers are expected to pay attention to important choices to be a reference for determining the company's strategy in improving company performance. The investment policy is a policy of choosing the desired investment from a group of existing opportunities, choosing one or more investment alternatives that are considered the most profitable. Pontoh & Budiarto, (2020) stated that investment activity is an essential factor in developing a business that is run. Investment activities carried out generally result from investment decisions that consider various factors. IK actors in general often do not obtain sufficient knowledge and information in carrying out managerial activities related to investment decisions. Investment is placing capital into a particular business to get additional income. An asset is profitable (profitable) if the investment can make investors richer. Cania & Susdiani's, (2021) research results show that financial management practices and product innovation affect financial performance. Meanwhile, process, marketing, and organizational innovation do not involve financial performance.

The results of testing the fourth hypothesis (H4) show that working capital has a positive and significant effect on business performance in small halal industrial companies in Ternate City. These results illustrate that business performance will also increase if working capital increases. This is because the amount of working capital used by small halal industrial companies will facilitate the production process to contribute to the maximum income. The presence of excessive working capital shows that the funds are not productive. The lack of working capital indicates that the company cannot finance the company's activities. Kasmir, (2016) stated that the money is used to carry out the company's operations. Working capital can also be interpreted as investing in current assets or short-term assets such as cash, securities, receivables, inventories, and other existing assets. Djarwanto, (2011) states that working capital should be available in sufficient quantities to enable the company to operate economically and not experience financial difficulties, for example, covering losses and overcoming crises or emergencies without endangering the company's financial situation. The results of this study support previous research by Putri et al., (2020) that working capital and sales growth affect financial performance. Andelline & Widjaja, (2018) stated that working capital turnover and total asset turnover affect financial performance. Trisnawati et al., (2018) results show that business capital and level of entrepreneurial experience significantly influence the performance of MSMEs in Madiun City. Ismartaya (2021) states that business capital has a positive and significant effect on the performance of MSMEs in the city of Bogor. In comparison, the research results from Eka, (2020) show that there is no effect of working capital on profitability.

## Conclusions

Based on the results of empirical testing, we found that the characteristics of the Halal Small Industry in Ternate City are dominated by the food and beverage industry, which is managed by some women aged 36 to 50 years with high school education. Second, Islamic financial literacy has no effect on business performance in the small halal industry in Ternate City. These results are

by respondents' perceptions that Islamic financial literacy still needs to be maximized by small halal industry players in the city of Ternate. The funding decision for Halal Small Industry players in Ternate City does not affect business performance because the funding decision is in the medium category. Investment decisions have no effect between financial investment decisions and the implementation of Small Industry businesses in Ternate City. Then the fourth. The results show a positive and significant influence between working capital and business performance of the Small Halal Industry of Ternate City.

We put forward some suggestions that are expected to help the city government of Ternate to provide education about financial literacy better. Providing this education can also help IK actors increase their knowledge and understanding, which is not widely known and is a weakness of IK. With a sense of sound financial management practices, it is hoped that IK players will be able to make appropriate financial and management decisions to improve performance and business sustainability. As well as for Islamic financial institutions, the involvement of financial institutions in playing an active role to enhance financial literacy for customers or the wider community and tiny industry players can improve Islamic financial education. Improve financial literacy, namely: workshops on providing financial knowledge to IK players.

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