

GUIDANCE ON THE USE OF SIMPLE FINANCIAL RATIOS TO MEASURE MSME PERFORMANCE

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Article info	ABSTRACT
<p>Corresponding Author: Aloisius Hama, aloisius@stieyapan.ac.id, Sekolah Tinggi Ilmu Ekonomi YAPAN</p>	<p>MSMEs play a strategic role in the national economy. They continue to face limitations in managing and evaluating business financial performance. Low levels of financial literacy cause MSME actors to experience difficulties in objectively assessing business profitability. This community service activity aims to improve MSME actors' understanding of financial performance measurement through the use of simple financial ratios, particularly the Net Profit Margin. The implementation method employed a participatory approach through technical guidance, interactive discussions, and case study simulations. The results of the activity indicate an improvement in participants' understanding of the concept of net profit and their ability to calculate and interpret the ratio. Satisfaction survey results show that more than 90% of participants expressed satisfaction to high satisfaction with the materials, methods, and benefits of the activity. Overall, this activity was effective in improving MSME financial literacy, has the potential to encourage more rational and sustainable business decision-making.</p> <p>Keywords: <i>Financial Ratios, MSME Performance</i></p> <p>This article distributed under the terms of the Creative Commons Attribution-Share Alike 4.0 International License (https://creativecommons.org/licenses/by-sa/4.0/)</p>

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are a strategic sector that plays an important role in supporting the national economy, particularly in job creation and income distribution. However, amid increasing business competition, MSMEs are required to possess more professional business management capabilities, especially in the financial aspect. Various studies indicate that the main weakness of MSMEs lies in low financial literacy and limited ability to prepare and analyze business financial statements (Nuvitasari & Martiana, 2019); (Sanistasya, Rahardjo, & Iqbal, 2019).

Low understanding of financial statements causes MSME actors to experience difficulties in assessing the actual condition of their businesses. Many MSMEs still rely on the amount of turnover as an indicator of business success, without paying adequate attention to profit levels and cost efficiency. This condition has the potential to lead to errors in business decision-making, such as inappropriate pricing and weak control of operational costs (Wisnantiasri, Sofia, Nurhidayah, & Sunaryo, 2018). Therefore, a financial performance measurement tool that is simple, easy to understand, and applicable for MSMEs is required.

One relevant and easily applicable financial analysis tool for MSMEs is financial ratios, particularly profitability ratios. The Net Profit Margin is an indicator that reflects a business's ability to generate net profit from total sales. This ratio is considered suitable for MSMEs because it does not require complex calculations, yet it is able to directly describe business efficiency (B. G. Putri, 2020); (Nurjanah et al., 2021). Previous observations show that understanding and use of profitability ratios have a positive effect on improving MSME financial performance (Sidik, Halimah, Andriyani, Suharniati, & Kamilah, 2024); (Nurjanah et al., 2021).

The urgency of this community service activity is based on the real needs of MSMEs for practical assistance in managing and evaluating business finances. Although some MSME actors have conducted simple financial record-keeping, such records are generally not utilized as a basis for business performance analysis. This is consistent with other findings stating that MSMEs tend to be unable to interpret their financial data for evaluation and business planning purposes (Karhab, Utami, & Sartika, 2022).

Through this community service activity, MSME actors are provided with technical guidance on the use of the Net Profit Margin as a simple and applicable tool for measuring financial performance. This approach is important because improving financial literacy should not only focus on conceptual knowledge but also on practical skills in applying financial analysis to support business decision-making (D. Putri, Harahap, Sugiarti, & Efendi, 2024); (Karhab et al., 2022). Thus, this community service is expected to have a direct impact on improving the financial managerial capacity of MSMEs.

This community service activity has fundamental differences from similar programs that generally focus on preparing complete financial statements or using accounting applications. This activity emphasizes the use of a single key indicator, namely the Net Profit Margin, as an initial step for MSMEs in understanding business financial performance. This simplification approach is considered more appropriate for MSMEs, which have limitations in time, resources, and accounting background (Karhab et al., 2022).

In addition, this activity is designed contextually according to the needs of MSME partners by utilizing case studies and calculation simulations that closely reflect real business conditions. This participatory and applicable approach distinguishes this community service activity from general and theoretical training programs and is in line with recommendations emphasizing the importance of practice-based assistance in improving MSME financial performance (Nurjanah et al., 2021).

Based on the background and urgency described above, this community service activity aims to improve MSME actors' understanding and awareness of the importance of measuring business financial performance. In addition, this activity aims to provide practical guidance in calculating and interpreting the Net Profit Margin as a measure of business profitability. Ultimately, this community service is expected to encourage MSME actors to use financial ratio analysis as a basis for evaluating and making more directed, efficient, and sustainable business decisions (Nurjanah et al., 2021); (Sidik et al., 2024).

METHOD

This community service activity was designed using a participatory and applicative approach, with the primary objective of improving MSME actors' ability to understand and apply simple financial ratio analysis, particularly the Net Profit Margin, as a measure of

business performance. The participatory approach was chosen because MSMEs, as community service partners, do not only act as objects of the activity but also as active subjects involved throughout the entire process. This approach is consistent with findings stating that MSME financial literacy improvement programs are more effective when they involve active participation of business actors and are based on the real needs of partners (D. Putri et al., 2024).

The implementation method was divided into three main stages: the preparation stage, the implementation stage, and the evaluation stage. These stages were designed systematically and continuously to ensure that the community service activity was not merely ceremonial but was able to provide a tangible impact on improving MSME financial managerial capacity. This staged model aligns with empowerment-based community service approaches, where assistance is carried out gradually and in a structured manner (Dewi, Pandin, & Gs, 2022).

The preparation stage began with a field survey and identification of MSME partner needs. The survey was conducted to obtain an initial overview of business conditions, financial recording patterns, and the level of MSME actors' understanding of financial statements and financial ratios. The survey results showed that most MSMEs did not yet have structured financial records and had never used financial ratios as a performance evaluation tool. These findings reinforce previous observations stating that the majority of MSMEs still experience difficulties in preparing financial statements according to standards and tend to neglect financial analysis as a basis for decision-making (Manehat & Sanda, 2022).

Based on the identification results, the community service team prepared guidance materials tailored to the characteristics and needs of the partners. The materials focused on introducing basic concepts of MSME financial performance, the importance of separating personal and business finances, and introducing simple financial ratios with an emphasis on the Net Profit Margin. The materials were prepared using simple language and accompanied by contextual examples relevant to smoked fish processing businesses, making them easier for participants to understand. This simplification approach refers to recommendations emphasizing the importance of using non-technical language in financial training for MSMEs (Karhab et al., 2022).

The implementation stage constituted the core of this community service activity. The activity was carried out through technical guidance, interactive lectures, discussions, and case study simulations. The lecture method was used to convey basic concepts of MSME financial performance and introduce the Net Profit Margin. However, the lectures were not delivered in a one-way manner; instead, they were combined with interactive discussions so that participants could relate the material to their business experiences. This interactive learning model has proven effective in improving MSME understanding, as stated by (Sidik et al., 2024).

Following the delivery of basic concepts, the activity continued with technical guidance on calculating the Net Profit Margin. At this stage, participants were provided with explanations regarding the main components of ratio calculation, namely net sales and net profit. The community service team explained how to identify business revenue, calculate operational costs, and determine net profit in a simple manner. This explanation was crucial given that many MSMEs are not accustomed to distinguishing between turnover and profit,

as also found in other observations regarding MSME decision-making based on financial statements (Wisnantiasri et al., 2018).

To strengthen participants' understanding, case study simulation methods were employed using simple financial data resembling the real conditions of smoked fish processing MSMEs. Participants were directly involved in calculating the Net Profit Margin based on the case examples and then discussing the meaning and implications of the calculation results. This simulation aimed to ensure that participants were not only able to calculate ratios mathematically but also understand how the ratio results could be used as a basis for evaluating business efficiency. This learning-by-doing approach is consistent with findings stating that MSME understanding of financial ratios increases significantly through direct practice (Nurjanah et al., 2021).

In addition to simulations, the implementation stage also included discussion and question-and-answer sessions designed to accommodate specific problems faced by each MSME. In this session, participants were given the opportunity to convey obstacles encountered in financial recording and business cost control. The community service team provided practical and applicable solutions and recommendations according to the scale of the partner businesses. This problem-solving approach is important so that MSMEs can directly implement the training outcomes in daily business activities, as recommended by (Sidik et al., 2024).

The evaluation stage was conducted to assess the effectiveness of the community service activity and participants' understanding of the delivered material. Evaluation was carried out qualitatively through observation during the activity and direct feedback from participants. Evaluation indicators included participants' ability to re-explain the concept of the Net Profit Margin, accuracy in performing ratio calculations, and understanding of ratio interpretation within the context of their businesses. This qualitative evaluation approach is considered appropriate for training-based community service activities, as used in previous community service observations (Nurjanah et al., 2021).

The evaluation results showed an improvement in participants' understanding of the importance of measuring financial performance and using the Net Profit Margin as an indicator of business profitability. Participants also demonstrated interest in starting to implement simple financial record-keeping and conducting periodic business evaluations. These findings support other observations stating that increased financial literacy has a positive correlation with improved MSME performance (D. Putri et al., 2024).

Overall, the implementation method used in this community service activity emphasized a balance between theoretical and practical aspects and was tailored to the characteristics and needs of MSME partners. Through a simple, participatory, and applicative approach, this activity is expected to serve as an initial foundation for MSMEs in developing sustainable financial performance evaluation practices and supporting more rational, data-based business decision-making.

RESULT AND DISCUSSION

Finding

The implementation of this community service activity in the form of guidance on the use of simple financial ratios demonstrated positive results in improving MSME actors' understanding and awareness of the importance of measuring business financial

performance. Prior to the activity, most MSME participants did not have adequate understanding of the concept of net profit and had never used financial ratios as a business evaluation tool. This condition is consistent with other findings stating that MSMEs tend to focus solely on turnover without paying attention to cost structures and business profitability levels (Manehat & Sanda, 2022).

After participating in the series of guidance and Net Profit Margin calculation simulations, participants demonstrated improved ability to distinguish between revenue, costs, and net profit. This understanding is a fundamental aspect of MSME financial management, as errors in interpreting profit can lead to inappropriate business decision-making. Misunderstanding profit often causes MSMEs to experience cash flow difficulties even when nominal turnover appears to increase (Wisnantiasri et al., 2018). Therefore, the improvement in participants' understanding of the net profit concept can be considered a significant achievement of this community service activity.

The implementation results indicate that the use of the Net Profit Margin as a business performance indicator was relatively well accepted by MSME actors. This is due to the simplicity of the formula and its direct relevance to daily business conditions. Participants quickly understood that this ratio reflects business efficiency in generating profit from sales. These findings reinforce observations stating that profitability ratios, particularly the Net Profit Margin, are the most easily adopted indicators by MSMEs compared to other financial ratios (Nurjanah et al., 2021).

In addition to improved technical understanding, this community service activity also had an impact on changes in MSME actors' mindset regarding business performance. Before the activity, most participants assessed business success solely based on increased sales or production volume. However, after the training, participants began to realize that high sales are not always accompanied by adequate profit levels if operational costs are not properly managed. This shift in perspective aligns with findings stating that financial literacy can shift MSME orientation from turnover toward profitability and business efficiency (Sidik et al., 2024).

The discussions and case study simulations conducted during this activity also revealed that the Net Profit Margin can be used as a reflective tool to evaluate pricing strategies and cost control. Several participants realized that their business profit margins were relatively low due to high raw material and operational costs that were not recorded in detail. This awareness encouraged discussions on alternative strategies, such as adjusting selling prices, improving raw material efficiency, and controlling indirect costs. These findings support observations stating that profitability ratio analysis can assist MSMEs in formulating strategies to improve financial performance (Nurjanah et al., 2021).

Discussion

From an implementation perspective, this activity demonstrated that practice-based learning approaches (learning by doing) are highly effective in improving MSME understanding of financial concepts. Calculation simulations using simple data that closely resemble real business conditions made it easier for participants to relate the material to their experiences. This approach is consistent with other findings emphasizing that MSME financial training has greater impact when accompanied by case examples relevant to participants' businesses (Sidik et al., 2024).

The discussion also shows that this community service activity not only increased knowledge but also encouraged participants' intention to implement more orderly financial record-keeping. Several participants expressed willingness to begin routinely recording business income and expenses as a basis for calculating the Net Profit Margin. This is important because financial record-keeping is a primary prerequisite for implementing financial ratio analysis. These findings align with observations stating that improved financial understanding can encourage behavioral changes in MSME financial management (R & Putri, 2023).

Nevertheless, the activity results also revealed limitations in the sustainable implementation of the Net Profit Margin. Some participants reported constraints related to time and habitual financial record-keeping. This indicates that improving financial literacy must be accompanied by continued assistance to ensure behavioral change is well internalized. A single training session is insufficient to guarantee sustainable financial analysis practices among MSMEs; therefore, continuous mentoring programs are required (Nurjanah et al., 2021).

From an academic perspective, this community service activity contributes empirically to the community service literature in the field of MSME accounting and finance. The results indicate that a simplified approach using a single key indicator, namely the Net Profit Margin, can serve as an effective entry point for MSMEs to understand broader financial performance concepts. Simplifying financial concepts is an appropriate strategy in MSME empowerment programs (Karhab et al., 2022).

Overall, the discussion demonstrates that guidance on the use of the Net Profit Margin provides a positive impact on improving understanding, shifting mindsets, and enhancing MSME readiness to manage business finances more rationally. This activity also emphasizes the importance of synergy between theoretical and practical approaches in community service programs. With strengthened follow-up assistance and expansion of materials to include other simple financial ratios, similar activities have the potential to contribute more significantly to improving MSME performance and sustainability in the future.

In addition to improvements in understanding and changes in MSME actors' perspectives on financial management, the success of this community service activity can also be measured through partner satisfaction levels. Partner satisfaction is an important indicator in evaluating community service activities, as it reflects the alignment between partner needs and the materials, methods, and benefits perceived from the implemented activities. Training participant satisfaction is one of the determinants of sustainable implementation of community service outcomes in MSMEs (Dewi et al., 2022).

Measurement of partner satisfaction in this activity was conducted through a simple survey administered at the end of the activity using a percentage-scale questionnaire. The survey focused on three main criteria: (1) relevance and clarity of the material, (2) benefits of the activity for the business, and (3) implementation methods (discussion and simulation). This evaluation approach aligns with community service evaluation methods emphasizing the importance of direct feedback from MSME participants. These three criteria represent the substance, impact, and process aspects of community service activities (Sidik et al., 2024). Based on the MSME partner satisfaction survey results, for the relevance and clarity of the material criteria, 55% stated very satisfied, 40% satisfied, and the remaining 5% stated moderately satisfied. For the benefits of the activity for MSME businesses, 65% stated very

satisfied, 30% satisfied, and 5% stated moderately satisfied. For the implementation methods (discussion and simulation), 60% stated very satisfied, 35% satisfied, and 5% stated moderately satisfied.

The survey results indicate that MSME partner satisfaction with the community service activity was high, with satisfaction levels (very satisfied and satisfied) exceeding 90% across all assessment criteria. High satisfaction in the relevance and clarity of materials indicates that the delivery of the Net Profit Margin concept was aligned with the needs and comprehension capacity of MSME actors. Simplification of financial materials has a significant influence on MSME understanding and acceptance of training programs (Sidik et al., 2024).

The benefits aspect received the highest satisfaction level, indicating that MSME actors perceived direct impacts of the community service activity on their business management. This high perceived benefit is an important factor in encouraging sustainable adoption of financial management practices, as applicable financial literacy positively correlates with improved MSME performance (D. Putri et al., 2024); (Karhab et al., 2022).

Meanwhile, high satisfaction with implementation methods indicates that the participatory approach through discussion and case study simulation was effective in enhancing participant engagement and understanding. Practice-based learning methods not only improve understanding but also partner satisfaction in community service activities (Nurjanah et al., 2021); (Sidik et al., 2024). Overall, the survey results reinforce that the community service activity was conducted in a relevant, effective, and MSME-oriented manner.

CONCLUSION

This community service activity in the form of guidance on the use of simple financial ratios, particularly the Net Profit Margin, has made a positive contribution to improving MSME actors' understanding and awareness of the importance of measuring business financial performance. Based on the implementation and discussion results, it can be concluded that a simple, participatory, and applicative training approach is able to bridge the limitations of financial literacy that have long been a major constraint for MSMEs. Business actors not only gained technical knowledge on how to calculate financial ratios but also understood their meaning and implications in the context of more rational and data-based business decision-making, as emphasized in various previous studies (Nurjanah et al., 2021).

The discussion results indicate that the use of the Net Profit Margin can serve as an effective entry point for MSMEs to begin implementing systematic financial performance evaluation. The simplicity of this indicator facilitates MSME actors in linking sales, costs, and profits, thereby encouraging awareness of the importance of operational efficiency. These findings reinforce the view that simplifying accounting concepts is an appropriate strategy in MSME empowerment programs, particularly for business actors without formal accounting backgrounds (Sidik et al., 2024).

Furthermore, the high level of MSME partner satisfaction with this community service activity indicates that the materials, methods, and benefits of the activity were aligned with participant needs. High satisfaction in terms of benefits and ease of understanding indicates that the community service activity was not merely informative but also practically impactful on business management. Partner satisfaction has important implications for the

sustainability of training outcome implementation, as high perceived benefits increase the likelihood of sustained adoption of financial management practices (R & Putri, 2023).

Nevertheless, this activity still has limitations, particularly related to the lack of long-term assistance for MSMEs in implementing routine financial record-keeping and ratio analysis. Therefore, future community service activities are recommended to be complemented with continuous mentoring programs and the introduction of other simple financial ratios to provide MSMEs with a more comprehensive overview of financial performance. By strengthening mentoring aspects and simple financial record digitalization, MSMEs are expected to improve performance, competitiveness, and business sustainability more optimally.

Overall, this community service activity emphasizes the strategic role of higher education institutions in supporting MSME empowerment through contextual and applicative knowledge transfer. Guidance on the use of the Net Profit Margin as a simple financial performance measurement tool has proven relevant and beneficial for MSMEs and has the potential to be replicated in other business sectors with similar characteristics. Through sustainable synergy between academics and MSME actors, community service activities are expected to make tangible contributions to strengthening people-based economic development.

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