THE INFLUENCE OF CAPITAL, FINANCIAL INCLUSION, AND FINANCIAL LITERACY ON THE FINANCIAL PERFORMANCE OF MSMEs (MICRO, SMALL AND MEDIUM ENTERPRISES) IN GIANYAR REGENCY

Gregorius Paulus Tahu[1], I Dewa Ayu Wilajayani[2], I Wayan Widnyana[3], Yenny Verawati[4]
gregori_tahu@unmas.ac.id[1], wilajayani09@gmail.com[2], wywid@unmas.ac.id[3], yenny_verawati@unmas.ac.id[4]
Universitas Mahasaraswati

Abstract
MSMEs have a crucial role in the development and growth of the national economy as well as drive grassroots economic activity in Indonesia. One of the key aspects in the operation of MSMEs is financial management. This research aims to determine the influence of capital, financial inclusion, and financial literacy on the financial performance of MSMEs in Gianyar Regency. The research employs a quantitative approach with an associative design. The population includes all owners or managers of MSMEs in Gianyar Regency. A sample of 48 respondents was selected using accidental sampling, wherein respondents are owners or managers of MSMEs in Gianyar Regency at the time and place where the researcher collected data. The data collection method in this research is the distribution of questionnaires. The analysis techniques used include multiple linear regression analysis, multiple correlation analysis, determination analysis, and hypothesis testing (t-test). The results of this research indicate that 59.1% of the variation in financial performance of MSMEs in Gianyar Regency is influenced by capital, financial inclusion, and financial literacy. Based on the hypothesis test, it is found that capital, financial literacy, and financial inclusion have a positive and significant impact on the financial performance of MSMEs in Gianyar Regency. Suggestions for future research include expanding this study by incorporating other factors such as debt management, risk management, and investments, which theoretically also influence the financial performance of MSMEs in line with the occurring phenomena.
Keywords: *financial performance, capital, financial inclusion, financial literacy*

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in national economic development and growth, as well as driving the people's economy in Indonesia. According to data from (Marija et al., 2021), the MSME sector is one of the key business groups, serving as the main support and impacting overall employment with a contribution of 97%. MSMEs also contribute to the national Gross Domestic Product (GDP) by 61.97%, equivalent to IDR 8,500 trillion in 2020, and are a significant source of export growth, particularly non-oil and gas exports. According to Law No. 20 of 2008,

One of the most critical aspects of MSME operations is financial management, which helps businesses manage cash and cash flow effectively, maintain liquidity and avoid financial problems, manage debt and capital efficiently, manage risk, and make financial decisions to achieve optimal financial performance. The financial performance of SMEs measures their ability to generate profits and manage finances effectively. Financial performance encompasses various aspects such as sales growth, profit margins, cost management efficiency, cash management, debt, and capital management, among others (Pramestiningrum & Iramani, 2020).

Bali Province is one of the regions in Indonesia with a high growth rate of SMEs, with a recorded 440,609 SMEs in 2022 spread across 9 regencies and cities (Bali Province Cooperative and SME Office, 2022). Gianyar Regency ranks fourth in Bali Province in terms of SME growth from year to year. Most of the economic activities in Gianyar Regency are in the trade, agriculture, and tourism sectors (Nur Hamidah et al., 2020a). The number of SMEs in Gianyar Regency by type of business for 2019-2021 is shown below.

Table 1. Data on the Number of SMEs in Gianyar Regency by Type of Business 2019-2021

Tahun	Jenis Usaha				Jumlah
	Pertanian	Non Pertanian	Perdagangan	Jasa	
2019	9.879	27.484	30.253	7.696	73.312
2020	9.894	27.499	30.255	7.764	75.412
2021	9.894	27.507	30.377	7.764	75.542

Source: Bali Province Cooperative and SME Office (2022)

Table 1 shows that the number of SMEs in Gianyar Regency increased from 2019 to 2021. In terms of types of businesses, the trade sector dominates, followed by the non-agricultural sector. The large number of SMEs in Gianyar Regency indicates high competition among SMEs, requiring each business to have appropriate strategies and management, including operational, financial, marketing, technology management, and others, to improve business performance. This is crucial as the SME sector significantly contributes to the economic growth of Gianyar Regency and is one of the leading sectors.

Despite their strategic role and substantial growth rate, SMEs in Gianyar Regency face several issues according to Desmayani's (2022) research, such as a decline in business activities from 2019 to 2021, which includes sales (52%), financial management difficulties (16%), capital difficulties (12%), distribution difficulties (10%), raw material difficulties (6%), and employee empowerment difficulties (4%). Based on these issues, the overall performance of SMEs in Gianyar Regency needs to be optimized through the effectiveness of factors that can impact financial performance improvement (Menne et al., 2023).

Capital is considered an investment in business, involving expenditures to purchase production equipment and capital goods aimed at increasing funds in economic activities, particularly in producing goods and services. Capital is used as the principal for trading, releasing funds, and other activities to generate profits (Farida et al., 2019). According to (Tanko et al., 2021), most SMEs have very traditional financial management, making it difficult for managers to differentiate between operational funds and personal or household funds. This creates constraints or challenges for businesses in effectively and efficiently managing capital.

Effective business capital management is demonstrated through financial planning, control over expenditures and costs, effective cash flow management, and financial monitoring and analysis. Optimizing capital utilization can help a business achieve short-term and long-term financial goals and enhance overall performance (Nakibuuka et al., 2020). Research conducted by Ayem and Wahidah (2021), Ferdiansyah and Bukhari (2021), as well as Taufik et al. (2022), proves that capital has a positive and significant impact on financial performance. Different results were found by Rofiq and Edward (2019) and Wijaya et al. (2021), indicating that capital does not significantly affect financial performance.

Financial Inclusion refers to the availability of access to financial services through various institutions, products, and financial services that can be easily, conveniently, and safely accessed by all segments of society according to their needs and abilities to achieve prosperity (Kusuma, 2019). According to Siswanti (2020), most SMEs still face challenges in accessing financial services and funding, with 60% to 70% of SMEs in Indonesia not obtaining financing from banking institutions. The primary issue of financial inclusion for SMEs is limited access to formal financial institutions because many businesses do not meet the necessary requirements for obtaining loans (Kusuma, 2019).

Better access to financial resources through financial inclusion can help a business raise the necessary funds to start or expand its operations. Adequate financial inclusion enables companies to improve their financial performance (Yanti, 2019). Research by Septiani and Wuryani (2020), Febriana and Sulhan (2021), as well as Budiasni et al. (2022), demonstrates that financial inclusion has a positive and significant impact on financial performance. Different results were found by Puspitasari and Astrini (2021) and Suyanto (2022), indicating that financial inclusion does not significantly affect financial performance.

Financial Literacy refers to the understanding of financial terms, the ability, and skills to apply knowledge such as money management, inflation, interest rates, credit, and investments into personal life, with full awareness of the consequences of each financial action taken (Amri and Iramani, 2018). According to the Financial Literacy and Inclusion Survey (SLIK) conducted by the Financial Services Authority (OJK) in 2022, the financial literacy rate in Indonesia is 49.68%. This means that only about 49.68% of the Indonesian population has sufficient knowledge about financial management.

SME owners or managers with good financial literacy can manage financial resources more wisely. Financial literacy is needed in business management, especially in making decisions based on accurate financial information, which can also determine the financial performance of the business (Ye and Kulathunga, 2019). Research conducted by Alamsyah (2020), Septiani and Wuryani (2020), as well as Febriana and Sulhan (2021), proves that financial literacy has a positive and significant impact on financial performance. Different results were found by Kumalasari and Asandimitra (2019) and Puspitasari and Astrini (2021), indicating that financial literacy does not significantly affect financial performance.

Based on this background, this study aims to determine the influence of capital, financial inclusion, and financial literacy on the financial performance of SMEs in Gianyar Regency. The results of this research are expected to be beneficial for SME actors in Gianyar Regency to understand the factors affecting their financial performance, enabling them to make informed decisions and policies in the implementation of financial management and improvement of financial performance through the influencing factors, namely capital, financial inclusion, and financial literacy.

LITERATURE REVIEW

1. Economic Welfare Theory

The theory of economic welfare is a conceptual framework that studies and analyzes the relationship between economic factors and the welfare of individuals or society. This theory focuses on how economic resources are used, allocated, and obtained to achieve maximum welfare (Mollah et al., 2021). It posits that better access to financial services and a good understanding of financial concepts will enhance the economic welfare of individuals and entities (Styaningrum, 2021).

2. Financial Performance

Financial performance represents the financial condition of a business or enterprise over a specific period, encompassing aspects of fund collection and distribution. It is typically measured using indicators such as capital adequacy, liquidity, and stock prices. The financial performance of a business can be determined through financial statements that show the financial state and outcomes achieved from business activities during a certain period (Nur Hamidah et al., 2020b).

3. Capital

Capital is the wealth of a company that can be used for production activities. It is a factor of production that has a strong influence on achieving productivity or output. Macroeconomically, capital is a major driver for increasing investments, both directly in the production process and in production infrastructure, thereby boosting productivity (Ying et al., 2019).

4. Financial Inclusion

Financial inclusion can be defined as the process of ensuring access to financial services and credit that can be accessed by all groups at an affordable cost (Maulatuzulfa & Rokhmania, 2022). Financial inclusion is the availability of access to financial services to various institutions, products, and financial services that can be easily, comfortably, and safely accessed by all levels of society according to their needs and capabilities to achieve welfare (Sihwahjoeni et al., 2021).

5. Financial Literacy

Financial literacy is the knowledge of financial management as well as knowledge of basic principles, concepts, and methods to use money wisely. Financial literacy is defined as the ability to know and understand financial-related topics, including knowledge of ways to increase financial returns (Ye and Kulathunga, 2019). Indications of financial literacy begin with awareness and understanding of financial types and products, financial institutions, and common financial behaviors such as money management and personal financial planning (Ruswandi et al., 2024).

6. SMEs

The definition of SMEs in Indonesia is regulated by Law Number 20 of 2008 concerning SMEs. In Chapter 1 (General Provisions) Article 1 of the law, it is stated that a micro-business is a productive business owned by individuals and individual business entities that meet the criteria of a micro-business as regulated by the law. A small business is a productive economic enterprise that stands alone, carried out by individuals or business entities that are not subsidiaries or branches of companies owned, controlled, or part of, either directly or indirectly, a micro-business or a large business that meets the criteria of a small business as regulated by the law.

A medium business is a productive economic enterprise that stands alone, carried out by individuals or business entities that are not subsidiaries or branches of companies owned, controlled, or part of, either directly or indirectly, a micro, small, or large business that meets the criteria of a medium business as stipulated in the law.

7. State of the Arts

The research conducted by (Hasanudin & Panigfat, 2023), published in the Shirkah: Journal of Economics and Business, explores the dynamic relationship between financial literacy, financial inclusion, fintech lending, and the mediation role of business capital in influencing the performance of micro, small, and medium enterprises (MSMEs). The study focuses on the MSMEs in the North Maluku Province, particularly in the Sula Islands Regency, Sanana District, Indonesia. The research aims to assess the impact of financial literacy, financial inclusion, and fintech lending on MSME performance while considering business capital as a mediating variable.

Employing structural equation modeling, the study reveals that financial literacy, financial inclusion, and fintech lending significantly and positively affect the performance of MSMEs. Financial literacy equips business owners with the necessary knowledge to manage finances effectively, make informed financial decisions, and navigate economic challenges. Financial inclusion ensures that MSMEs have access to essential financial services, which is crucial for their growth and sustainability. Fintech lending provides alternative financing options, often more accessible than traditional banking, thereby facilitating the capital needs of MSMEs.

The research further emphasizes the mediating role of business capital in enhancing MSME performance. Business capital acts as an intermediary through which financial literacy, financial inclusion, and fintech lending translate into improved business outcomes. The presence of adequate business capital allows MSMEs to invest in growth opportunities, manage cash flow efficiently, and sustain operations during economic fluctuations. This mediation highlights the importance of sufficient capital for leveraging the benefits of financial knowledge and accessible financial services.

Overall, the study by Hasanudin and Panigfat (2023) underscores the intricate interplay between financial literacy, financial inclusion, fintech lending, and business capital in driving the performance of MSMEs. It provides valuable insights for policymakers, financial institutions, and MSME owners, suggesting that enhancing financial education, broadening financial access, and promoting fintech solutions, coupled with adequate business capital, can significantly boost MSME performance.

The research by (Purwanti & Fatmawati, 2023), published in the Enrichment: Journal of Management, examines the relationship between financial literacy, financial inclusion, and the performance of angkringan SMEs in Bekasi. The study is grounded on the premise that both financial literacy and financial inclusion are critical determinants of SME performance. Many SMEs face growth impediments due to inadequate entrepreneurial knowledge and limited access to financial services, which are essential for securing business capital.

This quantitative study involves 60 respondents from angkringan SMEs in Bekasi. Data was collected through a combination of literature reviews, observations, and questionnaires, providing a comprehensive dataset for analysis. The researchers employed multiple linear regression analysis and hypothesis testing to assess the impact of financial literacy and financial inclusion on SME performance.

The findings of the study indicate that both financial literacy and financial inclusion have a significant positive impact on the performance of angkringan SMEs in Bekasi. Financial literacy enhances the ability of SME owners to manage their finances effectively, make informed business decisions, and develop strategies for sustainable growth. It encompasses knowledge of budgeting, financial planning, and understanding financial products, which are crucial for the day-to-day operations and long-term success of SMEs.

Financial inclusion, on the other hand, ensures that SME owners have access to essential financial services such as savings accounts, credit, insurance, and payment systems. This access is vital for obtaining the necessary capital to start, maintain, and expand their businesses. The study emphasizes that without financial inclusion, SMEs struggle to secure funding, manage cash flow, and invest in growth opportunities, thereby limiting their performance and potential for expansion.

The research by (Purwanti & Suharyadi, 2018) underscores the importance of both financial literacy and financial inclusion in enhancing the performance of SMEs. It suggests that policies aimed at improving financial education and broadening access to financial services can significantly benefit SME owners, leading to improved business outcomes. These findings provide valuable insights for stakeholders, including policymakers, financial institutions, and SME support organizations, highlighting the need for integrated efforts to foster financial literacy and inclusion among SMEs.

The study by (Aritonang et al., 2023), presented at the 20th International Symposium on Management (INSYMA), delves into the impact of financial literacy and financial inclusion on the performance of Micro, Small, and Medium Enterprises (MSMEs) in North Sumatra Province. MSMEs are pivotal to the Indonesian economy, constituting 99.9% of total businesses and significantly contributing to job creation. Despite their importance, MSMEs in Indonesia often struggle with capital issues, largely due to low levels of financial literacy and financial inclusion.

The research aimed to investigate how financial literacy and financial inclusion, both individually and collectively, influence MSME performance. The study focused on 517 MSMEs supported by the SME & IKM DPW in North Sumatra, covering 33 regencies and cities in the province. Using a quantitative, associative research approach and Partial Least Square (PLS) analysis tools, the study provided comprehensive insights into these relationships.

The findings revealed that both financial literacy and financial inclusion significantly impact MSME performance, both separately and together. Financial literacy, which includes the ability to understand and apply financial concepts, was found to be crucial for effective business management. Skills and knowledge emerged as the most significant indicators of financial literacy, highlighting the importance of educational initiatives for MSME owners.

Financial inclusion, which ensures access to necessary financial services, was also found to be a key factor in MSME success. Connection and quality were identified as the most influential indicators of financial inclusion, indicating that the ability to access and utilize quality financial services is critical for MSME growth.

The study concluded that improving MSME performance in Indonesia requires concerted efforts to enhance financial literacy and inclusion. It emphasized the need for the government and relevant stakeholders to develop and implement effective programs and policies that address the financial challenges faced by MSMEs. Continuous development and adjustment of these initiatives are essential to ensure they meet the evolving needs of MSMEs, thereby fostering sustainable economic growth and development.

A study by (Nur Aisyah Kustiani et al., 2023) published in the Journal Publicuho explored the impact of financial literacy and financial inclusion on the financial performance of village-owned enterprises (BUM Desa) in East Java Province. The study specifically examined the role of rational decision-making and financial capital as mediating variables. Utilizing a partial least square structural equation model, the research employed latent variables to provide a nuanced analysis of these relationships.

Data collection was carried out through questionnaires distributed to BUM Desa managers in East Java using a convenience sampling technique. Out of the distributed questionnaires, 69 were returned and subsequently analyzed. The study's findings highlighted the significant direct influence of financial literacy on improving the financial performance of BUM Desa. Managers with higher financial literacy were better equipped to manage and enhance the financial health of their enterprises.

The study also found that financial inclusion plays a crucial role in motivating BUM Desa managers to make rational capital decisions, which in turn positively impacts financial performance. This underscores the importance of providing managers with access to essential financial services and knowledge to make informed decisions.

In the study titled "The Influence of Sharia Financial Literacy and Sharia Financial Inclusion on the Performance of MSMEs in Jember Regency," (Nabila et al., 2023) investigated the constraints faced by Micro, Small, and Medium Enterprises (MSMEs) due to limited funding sources and how this impacts their performance. This research aimed to test and analyze the influence of Sharia financial literacy and Sharia financial inclusion on MSME performance in Jember Regency. The population consisted of MSMEs in the region, and a sample of 204 respondents was collected through both online (Google Forms) and offline questionnaires.

The study's findings confirmed that Islamic financial literacy did not significantly affect the performance of MSMEs in Jember Regency. This result suggests that merely having knowledge of Sharia financial principles and products may not be sufficient to enhance MSME performance. On the other hand, Islamic financial inclusion was found to significantly affect MSME performance. This implies that access to Sharia-compliant financial services and products plays a crucial role in improving the financial outcomes and overall performance of MSMEs.

The findings of this study align with previous research that highlights the importance of financial inclusion over financial literacy in driving the performance of MSMEs. By improving access to financial services, MSMEs can better manage their finances, secure necessary funding, and enhance their business operations. Therefore, the emphasis should be on creating and promoting inclusive financial environments that cater to the unique needs of MSMEs operating under Sharia principles.

(Widyastuti et al., 2023) conducted a study on the performance of Micro, Small, and Medium Enterprises (MSMEs), which play a crucial role in Indonesia's economy, comprising 99.9% of all businesses and significantly contributing to job creation and employment. Despite their importance, MSMEs encounter various challenges, particularly related to capital, reflecting the low levels of financial literacy and financial inclusion among MSME operators in Indonesia.

This quantitative research aimed to explore the impact and relationship of financial literacy and financial inclusion, either individually or in combination, on the performance of MSMEs across Indonesia. The study population included 517 MSMEs assisted by SME & IKM DPW (Small and Medium Enterprises and Cooperatives Regional Office) of North Sumatra Province, spread across 33 Regencies and Cities in the province. The research employed an associative approach and utilized PLS (Partial Least Square) analysis tools to analyze the data.

The findings revealed that both financial literacy and financial inclusion have significant and simultaneous effects on MSME performance. Specifically, the study identified skills and knowledge as the most critical indicators of financial literacy influencing MSME performance. On the other hand, the quality of financial connections emerged as the most influential factor among indicators of financial inclusion affecting MSME performance.

Consequently, the study concluded that continuous efforts to enhance financial literacy and financial inclusion could lead to sustained improvements in MSME performance in Indonesia. The authors recommended that government bodies and relevant stakeholders focus on developing, adapting, and effectively implementing programs and policies to address the myriad challenges faced by MSMEs. By doing so, they can foster an environment conducive to the growth and sustainability of MSMEs, thereby contributing more robustly to Indonesia's economic development and job creation goals. This research provides valuable insights into the mechanisms through which financial education and access to financial services can empower MSMEs, highlighting avenues for policy intervention and support.

(Kristanto, 2021) conducted a study focusing on the interplay of bank behavior, financial literacy, financial inclusion, debt behavior, and their impact on investment decisions among working capital and investment debtors at the Regional Development Bank of Yogyakarta, Indonesia. This research aimed to explore how these factors influence economic growth within the industry context.

The study sample consisted of 280 debtors, and the research employed a mediation regression model using the PLS (Partial Least Squares) program for analysis. The findings underscored several key relationships: Firstly, bank behavior was found to significantly influence both financial inclusion and debt behavior among debtors. Secondly, financial literacy was positively associated with both financial inclusion and debt behavior. Thirdly, financial inclusion played a mediating role by influencing the investment decisions of debtors based on bank behavior. Similarly, debt behavior mediated the relationship between financial literacy and investment decisions.

The managerial implications drawn from this research highlight the importance of flexible credit provision by banks, coupled with effective controls over fund utilization to enhance industry movement. Moreover, fostering higher levels of financial literacy and financial inclusion among debtors was identified as crucial for improving industry dynamics and entrepreneurial performance. These factors contribute to making informed investment decisions that can potentially uplift both the debtor’s business and the banking sector’s performance.

In conclusion, the study provides valuable insights into the complex dynamics involving bank behavior, financial literacy, financial inclusion, debt behavior, and investment decisions. By understanding these relationships, policymakers and stakeholders in the banking and financial sectors can devise strategies to optimize credit provision processes, enhance financial education initiatives, and promote inclusive financial practices. Such efforts are essential for fostering sustainable economic growth and development within the Indonesian industry landscape.

(Sajuyigbe et al., 2020) conducted a study aimed at exploring the impact of financial literacy and financial inclusion on the performance of small-scale businesses in Southwest Nigeria. The research employed a descriptive survey approach, with a purposive sampling method selecting 240 participants from various small businesses engaged in sectors such as petty trading, bakeries, block-making, soup-making, tailoring, and agro-allied industries across the state capitals of Southwest Nigeria.

Data collection utilized a closed-ended questionnaire designed specifically for the study. The analysis included methods such as simple percentage, mean, standard deviation, Pearson Product Moment Correlation (PPMC), and Ordinary Least Square (OLS) regression to examine the relationships between financial literacy, financial inclusion, and business performance.

The findings highlighted several significant outcomes: Firstly, financial literacy and financial inclusion were found to have both joint and independent positive impacts on the performance of small-scale businesses. Secondly, there was a notable correlation between financial literacy and financial inclusion, indicating that businesses with higher financial knowledge tend to have better access to financial services. However, the study also revealed widespread gaps in financial knowledge among business operators, particularly in areas such as working capital management, accounting systems, financial reporting, and cash flow management.

Moreover, the research underscored the financial exclusion faced by many small business entrepreneurs from essential financial services like micro-financing, emergency loans, hire purchase financing, business bank loans, and micro-insurance plans.

The implications of these findings suggest that enhancing financial literacy and promoting financial inclusion initiatives could significantly benefit small businesses in Nigeria. Collaborative efforts involving the Central Bank of Nigeria and other professional organizations could play a pivotal role in expanding access to finance and improving financial management practices among entrepreneurs. By addressing these gaps, policymakers and stakeholders can contribute to fostering a more inclusive and supportive environment for small business growth and economic development in Nigeria.

(Dela Cruz et al., 2023) conducted a comprehensive evidence and gap map (EGM) focused on interventions aimed at enhancing access to financial services for micro-, small-, and medium-sized enterprises (MSMEs) in low- and middle-income countries. MSMEs constitute a significant portion of businesses in these economies and play a crucial role in job creation and economic growth. However, one of the primary obstacles to their development is the limited access to both investment and working capital financing.

The study emphasized that MSMEs often face challenges such as inadequate track records, lack of suitable collateral, and insufficient credit history, which result in frequent denials of business loans by traditional financial institutions. Moreover, institutional, structural, and non-financial factors further impede MSMEs' ability to access financing.

To address these challenges, both public and private sectors deploy various interventions aimed at improving MSMEs' access to finance. These interventions include strategies related to legislation, regulatory frameworks, institutional systems, financial products, and demand-side initiatives like financial literacy programs. The EGM synthesized evidence from 413 studies that explored these interventions across different regions and types of MSMEs.

Key findings from the EGM include the prevalence of studies focusing on microenterprises (379 studies), community groups (7 studies), and small and medium enterprises (109 studies). Lending instruments and financial products were the most common types of interventions, followed by systems and institutions facilitating access to financial services.

The outcomes examined in the studies encompassed policy environments, financial inclusion, firm performance, and welfare. Welfare outcomes, particularly for microenterprises, emerged as a significant focus area across the literature. The majority of studies used non-experimental or quasi-experimental designs (243 studies), while others employed experimental methods (136 studies) or were systematic reviews (34 studies).

Geographically, Sub-Saharan Africa and South Asia were the most studied regions, highlighting a need for more research in other regions to provide a comprehensive understanding of financial inclusion interventions' effectiveness.

(Togun et al., 2022) investigated the relationship between financial inclusion, financial literacy, and SMEs' performance, focusing on the mediating role of financial literacy. Conducted through structured equation modeling (SEM), the study targeted SMEs registered with SMEDAN and operational for at least five years, selecting 250 SME managers through random sampling.

The findings highlighted a positive and significant association between financial inclusion and SME performance. Notably, financial inclusion directly influenced financial literacy, underscoring its role in enhancing SME financial management capabilities. Financial literacy, in turn, demonstrated a substantial positive impact on SME performance and partially mediated the relationship between financial inclusion and performance.

The study's implications suggest collaborative efforts between small business regulators and accounting professional bodies to promote financial literacy among SME owners. Initiatives such as workshops, seminars, and short courses were recommended to improve SME operators' financial knowledge, thereby facilitating better access to funding and enhancing overall business performance. These findings contribute to the ongoing discourse on improving financial inclusion strategies tailored to support SME growth and sustainability in various economic contexts.

(Shofi et al., 2022) explored the interplay between social capital, financial literacy, financial access, and business performance, focusing on Batik SMEs in Pamekasan Regency. Guided by the Theory of Behavioral Finance (TBF) and Dual-Process Theory (DPT), the study aimed to analyze how social capital and financial literacy influence business performance through the mediation of financial access.

Using a quantitative approach, the researchers employed proportional sampling to select 135 respondents from Batik SMEs in Pamekasan Regency. Data collection involved distributing questionnaires, and Structural Equation Modeling (SEM-PLS) 3.0 software was used for data analysis.

The findings indicated significant relationships among social capital, financial literacy, financial access, and business performance. Specifically, access to finance was found to mediate the impact of social capital and financial literacy on the performance of Batik SMEs in Pamekasan Regency. This suggests that improved financial access enhances the beneficial effects of social capital and financial literacy on business outcomes.

(Ngek, 2016) explored the relationship between financial literacy, financial capital availability, and SME performance in the Free State province of South Africa. The study aimed to assess how financial literacy skills influence optimal financial decision-making and subsequently impact business performance, considering the moderating role of financial capital availability.

The research revealed that SMEs in the region generally exhibit low levels of financial literacy and limited access to financial capital. Despite these challenges, financial literacy was found to have a positive effect on SME performance. Importantly, the study highlighted that this relationship is strengthened when SMEs have greater access to financial capital. This suggests that adequate financial resources can enhance the ability of SME owners to apply financial knowledge effectively, leading to improved business outcomes.

The findings underscored the importance of promoting financial literacy among SME owners as a crucial aspect of entrepreneurial activities. Moreover, the study emphasized the role of policymakers in addressing the financial constraints faced by SMEs through initiatives that improve access to finance. By bridging the financing gap, policymakers can support SME growth and development, thereby fostering economic stability and entrepreneurship in the region.

CONCEPTUAL FRAMEWORK AND HYPOTHESES

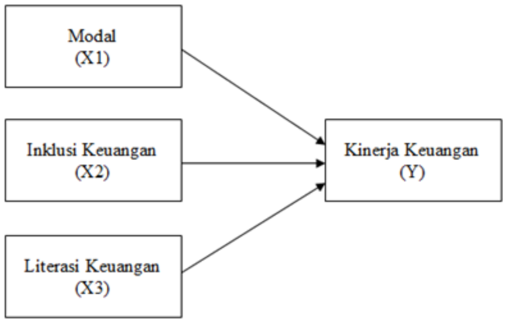

Figure 1. Conceptual Framework

Hypotheses in this study are outlined as follows:

H1: Capital has a positive influence on financial performance in SMEs in Gianyar Regency.

H2: Financial inclusion has a positive influence on financial performance in SMEs in Gianyar Regency.

H3: Financial literacy has a positive influence on financial performance in SMEs in Gianyar Regency.

RESEARCH METHOD

This research was conducted in Gianyar Regency, Bali Province, with the subjects being micro, small, and medium enterprises (MSMEs) operators. The independent variables in this study are capital (X1), financial inclusion (X2), and financial literacy (X3). The dependent variable in this study is financial performance (Y). The study utilized primary data obtained from questionnaire responses of respondents regarding the variables under investigation. Data collection methods included questionnaires, interviews, observations, and documentation.

Indicators for capital in this study refer to Alma (2018:27), namely: (1) capital structure; (2) utilization of additional capital; (3) access to external capital; (4) business condition after additional capital injection. Indicators for financial inclusion refer to Suyanto (2022), namely: (1) access to financial institutions; (2) usage of financial products; (3) geographic reach; (4) availability of financial infrastructure; (5) financial product innovation; (6) financial knowledge. Indicators for financial literacy refer to Amri and Iramani (2018), namely: (1) basic financial knowledge; (2) money management; (3) credit and debt management; (4) savings; (5) investment; (6) risk management. Indicators for financial performance refer to Pangestu (2021), namely: (1) revenue; (2) profitability; (3) liquidity; (4) efficiency; (5) growth.

The population used in this study consists of all MSME owners or managers in Gianyar Regency, totaling 75,542 in 2021. The sample was determined using the Cochran formula, resulting in 48 respondents who are MSME owners or managers in Gianyar Regency, selected based on their availability during data collection and willingness to participate in the study. Data analysis techniques included classical assumption tests, multiple linear regression analysis, multiple correlation analysis, determination analysis, and t-test.

RESULT AND DISCUSSION

1. Respondent Characteristics

Based on the research conducted, the characteristics of respondents include gender, age, highest education level, type of MSME, years of establishment, and monthly income of MSME.

Table 2. Respondent Characteristics

No.	Kriteria	Klasifikasi	Jumlah (Orang)	Persentase (%)
1.	Jenis Kelamin	Laki-laki	27	56,3%
		Perempuan	21	43,8%
Jumlah			**48**	**100%**
2.	Usia	20-25 Tahun	3	6,3%
		26-31 Tahun	5	10,4%
		32-37 Tahun	13	27,1%
		38-43 Tahun	14	29,2%
		44-49 Tahun	8	16,7%
		> 49 Tahun	5	10,4%
Jumlah			**48**	**100%**
3.	Pendidikan Terakhir	SMP	4	8,3%
		SMA/SMK	25	52,1%
		Diploma	10	20,8%
		Sarjana	9	18,8%
Jumlah			**48**	**100%**
4.	Jenis UMKM	Pertanian	3	6,3%
		Perdagangan	22	45,8%
		Kuliner	14	29,2%
		Jasa	9	18,8%
Jumlah			**48**	**100%**
5.	Lama Berdirinya UMKM	1-3 Tahun	3	6,3%
		4-6 Tahun	20	41,7%
		7-9 Tahun	8	16,7%
		10-12 Tahun	11	22,9%
		> 12 Tahun	6	12,5%
Jumlah			**48**	**100%**
6.	Pendapatan UMKM Per Bulan	Rp 1.000.000 – Rp 3.000.000	3	6,3%
		Rp 4.000.000 – Rp 5.000.000	8	16,7%
		Rp 6.000.000 – Rp 7.000.000	12	25%
		Rp 8.000.000 – Rp 9.000.000	11	22,9%
		Rp 10.000.000 – Rp 11.000.000	8	16,7%
		> Rp 11.000.000	6	12,5%

Source: Processed Data, 2023

2. Classical Assumption Tests Results

Classical assumption tests in this study were conducted using SPSS version 25.0, consisting of tests for normality, multicollinearity, and heteroskedasticity.

a. Normality Test

The normality test aims to determine whether the residuals from the regression model follow a normal distribution. The normality test was conducted using the Kolmogorov-Smirnov test, examining the Asymp. Sig. (2-tailed) value. If the Asymp. Sig. (2-tailed) value is greater than the significance level of 5% (0.05), then the data is considered to be normally distributed.

Table 3. Normality Test Results

	Unstandardized Residual
N	48
Test Statistic	0,104
Asymp. Sig. (2-tailed)	0,200

Source: Processed Data, 2023

Based on the normality test results, the Asymp. Sig. (2-tailed) value obtained is 0.200, which is greater than 0.05 (0.200 > 0.05). This indicates that the data in this study are normally distributed.

b. Multicollinearity Test

The multicollinearity test aims to detect whether there is correlation among the independent variables in the regression model. The criteria for detecting multicollinearity in the regression model are having Tolerance > 0.10 or having VIF < 10.

Table 4. Multicollinearity Test Results

Variabel	*Colinearity Statistic*	
	Tolerance	**VIF**
Modal (X1)	0,838	1,193
Inklusi Keuangan (X2)	0,878	1,139
Literasi Keuangan (X3)	0,898	1,114

Source: Processed Data, 2023

Based on the multicollinearity test results, it can be observed that the Tolerance coefficients of the independent variables are greater than 0.10 and the VIF values are less than 10. These results indicate that there is no multicollinearity issue in the regression model.

c. Heteroskedasticity Test

Heteroskedasticity testing was conducted using the Glejser test, with the condition that if the significance level is above 5% or 0.05, it can be concluded that the regression does not exhibit heteroskedasticity.

Table 5. Heteroskedasticity Test Results

Model	Sig.	Keterangan
Modal (X1)	0,240	Lolos Uji
Inklusi Keuangan (X2)	0,133	Lolos Uji
Literasi Keuangan (X3)	0,286	Lolos Uji

Source: Processed Data, 2023

Based on the heteroskedasticity test results, it is found that the significance values for each independent variable are greater than 0.05. This indicates that there is no heteroskedasticity issue in the regression model.

3. Results of Multiple Linear Regression Analysis

The influence of the variables capital (X1), financial inclusion (X2), and financial literacy (X3) on financial performance (Y) can be determined through multiple linear regression analysis.

Table 6. Results of Multiple Linear Regression Analysis

Model	*Unstandardized Coefficients*		*Standardized Coefficients*		Signifikansi
	B	***Standard Error***	***Beta***	**t**	
Konstanta	12,837	4,195		3,060	0,008
Modal (X1)	0,546	0,135	0,293	2,829	0,004
Inklusi Keuangan (X2)	0,658	0,197	0,344	3,347	0,002
Literasi Keuangan (X3)	0,603	0,120	0,509	5,005	0,000
R *Square* = 0,591 *Adjusted* R *Square* = 0,563					

Source: Processed Data, 2023

Based on the multiple linear regression analysis results, the regression equation obtained is as follows:

Y = 12,837 + 0,546X1 + 0,658X2 + 0,603X3 + e

The above multiple linear regression equation can be interpreted as follows: the constant value of 12.837 means that if the independent variables capital (X1), financial inclusion (X2), and financial literacy (X3) are all zero, the average financial performance of MSMEs in Gianyar Regency will be 12.837.

The regression coefficient for the capital variable (X1) is positive, indicating a positive relationship with financial performance (Y). A regression coefficient of 0.546 for variable X1 means that a 1% increase in capital will lead to a 0.546% increase in the financial performance of MSMEs in Gianyar Regency. Conversely, a 1% decrease in capital will result in a 0.546% decrease in financial performance.

The regression coefficient for the financial inclusion variable (X2) is positive, indicating a positive relationship with financial performance (Y). A regression coefficient of 0.658 for variable X2 means that a 1% increase in financial inclusion will lead to a 0.658% increase in the financial performance of MSMEs in Gianyar Regency. Conversely, a 1% decrease in financial inclusion will result in a 0.658% decrease in financial performance.

The regression coefficient for the financial literacy variable (X3) is positive, indicating a positive relationship with financial performance (Y). A regression coefficient of 0.603 for variable X3 means that a 1% increase in financial literacy will lead to a 0.603% increase in the financial performance of MSMEs in Gianyar Regency. Conversely, a 1% decrease in financial literacy will result in a 0.603% decrease in financial performance.

4. Results of Multiple Correlation Analysis

Multiple correlation analysis was conducted to determine the strength of the relationship between the variables capital (X1), financial inclusion (X2), financial literacy (X3), and financial performance (Y) through the correlation coefficient (R).

Table 7. Results of Multiple Correlation Analysis

Koefisien Korelasi (R)	**Tingkat Hubungan**
0,769	Kuat

Source: Processed Data, 2023

Based on the multiple correlation analysis results, the correlation coefficient (R) value is 0.769, indicating that the correlation level between capital, financial inclusion, and financial literacy with the financial performance of MSMEs in Gianyar Regency falls into the strong category based on the interpretation guidelines of the analysis.

5. Coefficient of Determination Analysis

The coefficient of determination or R Square (R^2) is used to determine the extent of contribution provided by capital (X^1), financial inclusion (X^2), and financial literacy (X^3) to financial performance (Y).

Table 8. Results of Coefficient of Determination Analysis

R	**R *Square***	***Adjusted R Square***	***Std. Error of the Estimate***
0,769	0,591	0,563	1,949

Source: Processed Data, 2023

The results of the coefficient of determination analysis are represented by the R Square value. The coefficient of determination, R Square, of 0.591 indicates that 59.1% of the variation in financial performance of MSMEs in Gianyar Regency is explained by capital, financial inclusion, and financial literacy, while the remaining 40.9% is explained by other factors not included in the research model.

6. t-test

Partial hypothesis testing, known as the t-test, is used to examine the influence of capital (X1), financial inclusion (X2), and financial literacy (X3) on financial performance (Y).

Table 9. Results of t-test

Variabel	**Koefisien Beta**	**Nilai Signifikansi**
Modal (X1)	0,546	0,004
Inklusi Keuangan (X2)	0,658	0,002
Literasi Keuangan (X3)	0,603	0,000

Source: Processed Data, 2023

The decision regarding the test results, acceptance or rejection of H0, is determined by comparing the significance value (Sig. t) with the predetermined probability level of 0.05. The testing criteria for explaining the interpretation of influence among each variable are as follows: if Sig. t > 0.05, then H0 is accepted and H1/H2/H3 are rejected. If Sig. t ≤ 0.05, then H0 is rejected and H1/H2/H3 are accepted.

Based on the t-test results for the influence of capital variable (X1) on financial performance variable (Y), a significance value of 0.004 was obtained, which is smaller than 0.05 (0.004 < 0.05), indicating a significant influence. This result indicates that H0 is rejected and H1 is accepted.

Based on the t-test results for the influence of financial inclusion variable (X2) on financial performance variable (Y), a significance value of 0.002 was obtained, which is smaller than 0.05 (0.002 < 0.05), indicating a significant influence. This result indicates that H0 is rejected and H2 is accepted.

Based on the t-test results for the influence of financial literacy variable (X3) on financial performance variable (Y), a significance value of 0.000 was obtained, which is smaller than 0.05 (0.000 < 0.05), indicating a significant influence. This result indicates that H0 is rejected and H3 is accepted.

7. Discussion

The test of the influence of capital (X1) on financial performance (Y) shows that capital has a positive and significant effect on financial performance in MSMEs in Gianyar Regency. This finding suggests that better management of capital by owners or managers of MSMEs in Gianyar Regency will lead to improved financial performance of their businesses; conversely, inadequate capital may limit access to resources needed for business development. Adequate capital provides MSMEs with better opportunities to enhance operational efficiency and compete in the market.

This research supports several previous studies such as Ayem and Wahidah (2021), Ferdiansyah and Bukhari (2021), and Nakibuuka et al. (2020), which prove that capital has a positive and significant effect on financial performance. This finding also aligns with the implications from Siswanti (2020) that capital is a financial resource necessary for operating and developing businesses. A business with organized and adequate cash flow can overcome financial challenges such as timely debt payments, meeting operational needs, and maintaining overall financial stability.

The test of the influence of financial inclusion (X2) on financial performance (Y) shows that financial inclusion has a positive and significant effect on the financial performance of MSMEs in Gianyar Regency. This result suggests that higher levels of financial inclusion obtained by MSMEs in Gianyar Regency will lead to improved financial performance of their businesses; conversely, limited financial inclusion may restrict access to affordable or formal financing. Therefore, financial inclusion helps MSMEs mobilize funds for working capital, investments, and business expansion without relying on informal or expensive financing. Thus, MSMEs can expand their operations more easily than before.

This research supports several previous studies such as Septiani and Wuryani (2020), Febriana and Sulhan (2021), and Yanti (2019), which prove that financial inclusion has a positive and significant effect on financial performance. This finding also aligns with the implications from Kusuma (2019) that financial inclusion refers to the availability of financial services. Financial inclusion allows MSMEs to access good financial services. Better access to financial resources through financial inclusion helps MSMEs raise the funds needed to start or expand businesses and improve their financial performance.

The testing of the influence of financial literacy (X3) on financial performance (Y) indicates that financial literacy has a positive and significant influence on financial performance of MSMEs in Gianyar Regency. This finding suggests that the higher the level of financial literacy possessed by owners or managers of MSMEs in Gianyar Regency, the higher their business's financial performance will be, and vice versa.

Financial literacy helps MSMEs in selecting financial instruments that suit their needs. A deeper understanding of various investment options, sources of financing, and financial products enables MSMEs to choose solutions that are most suitable for their business goals.

This research supports several previous studies by Alamsyah (2020), Septiani and Wuryani (2020), and Ye and Kulathunga (2019), which demonstrate that financial literacy has a positive and significant influence on financial performance. The findings also align with the implications of Kusuma (2019) that high financial literacy allows MSMEs to make better financial decisions and understand the implications of their actions on financial performance. A good understanding of financial concepts enables MSMEs to manage finances effectively, make smart investment strategies, and reduce unnecessary financial risks.

CONCLUSION

Based on the analysis and discussion conducted, several conclusions can be drawn as follows:

1. Capital has a positive and significant influence on financial performance of MSMEs in Gianyar Regency.
2. Financial inclusion has a positive and significant influence on financial performance of MSMEs in Gianyar Regency.
3. Financial literacy has a positive and significant influence on financial performance of MSMEs in Gianyar Regency.

RECOMMENDATIONS

Based on the conclusions and limitations of the study, the following recommendations can be provided:

1. Owners or managers of MSMEs in Gianyar Regency are advised to deepen their understanding of investment concepts such as stocks, bonds, or properties that will benefit in increasing asset value and return of funds. They can seek guidance from investment experts or attend investment seminars organized by local financial institutions or online.
2. Owners or managers of MSMEs in Gianyar Regency are advised to actively seek information about available financial services and understand various options that can support their business finances. This includes gaining an understanding of access to banking products, cooperative credit, financing institutions, and financial technology platforms available in the operational area of MSMEs.
3. Owners or managers of MSMEs in Gianyar Regency are advised to analyze their business's financial conditions including income and expenses to identify aspects that can be optimized. MSMEs can develop financial plans that include revenue growth targets and strategies to achieve them.
4. Further research is recommended to expand this study by including other factors such as debt management, risk management, and investments which theoretically also influence the financial performance of MSMEs tailored to the dynamics of entrepreneurship and phenomena occurring. Further research is also recommended to examine the variables of capital, financial inclusion, financial literacy, and financial performance with a broader regional or sectoral scope and include a more representative population and sample.

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