

Financial Management, Financial Behavior, and Financial Capital on MSME Performance

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ABSTRACT

This study aims to analyze the influence of financial management, financial behavior, and financial capital on the performance of Micro, Small, and Medium Enterprises (MSMEs) in Lubuk Alung District, Padang Pariaman Regency, and to test the role of Islamic financial literacy as a moderating variable. The study uses a quantitative explanatory design and Partial Least Squares-Structural Equation Modeling (PLS-SEM). Data were collected through questionnaires from 100 MSME actors selected using purposive sampling. Respondents were required to operate an active business for at least three years, conduct business in Lubuk Alung District, and have experience using financial technology services such as digital payments or digital transfers. The results show that financial management has a positive but statistically insignificant direct effect on MSME performance, while financial behavior also has a positive but statistically insignificant direct effect. Financial capital has a positive and statistically significant effect. Islamic financial literacy does not significantly moderate the relationship between financial management and MSME performance, but significantly and positively moderates the relationship between financial behavior and MSME performance. The moderation of Islamic financial literacy on the relationship between financial capital and MSME performance is not statistically significant. The R-square value of 0.500 indicates that 50.0% of the variance in MSME performance is explained by the model, while Q²predict of 0.366 indicates predictive relevance.

Keywords: Financial Management, Financial Behavior, Financial Capital, MSME Performance, Sharia Financial Literacy.

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) are an important part of community economic activity. In Lubuk Alung District, Padang Pariaman Regency, the study population consists of 3,553 MSMEs based on 2026 data from the Dinas Perdagangan, Tenaga Kerja, Koperasi dan UKM Kabupaten Padang Pariaman. An initial pre-survey involved 10 MSME actors in Lubuk Alung and was conducted as part of the early field assessment in 2026. The pre-survey assessed MSME performance through changes in sales, profit, business development, number of customers, and competitiveness. The results showed that 60% of respondents experienced increased overall business performance, while 40% were relatively stagnant. In the individual indicators, 50% reported increased sales, 50% increased profit, 70% increased business development, 60% increased customers, and 50% improved competitiveness. These preliminary observations provide contextual evidence for examining financial factors associated with MSME performance, while the main study tests the relationships empirically using the 100-respondent sample.

The Resource-Based View (RBV) explains competitive advantage in terms of valuable internal resources and capabilities. Barney (1991) argues that resources can contribute to sustained competitive advantage when they possess characteristics associated with value, rarity, imperfect imitability, and non-substitutability. In this study, financial capital is treated as a financial resource, whereas financial management and financial behavior are conceptualized as internal capabilities because they concern the processes through which financial resources are planned, controlled, allocated, and used in decision making. This interpretation is consistent with the broader capability perspective, which emphasizes distinctive managerial and organizational processes as mechanisms

through which firms coordinate and deploy resources (Teece, Pisano, & Shuen, 1997). The study does not assume that these capabilities automatically satisfy every VRIN/VRIO criterion; rather, RBV is used as the theoretical lens for explaining why differences in internal resources and capabilities may be associated with differences in MSME performance.

Good financial management can conceptually help business actors record, plan, control cash flow, and decision-making. However, these practices do not necessarily directly result in increased turnover, profits, customers, or business development. Financial behavior is also important because business owners' decisions can be influenced by experience, preferences, risk perceptions, and money management habits. On the other hand, financial capital provides resources that can be used for operations, raw material purchases, investment, product development, and business expansion.

Islamic financial literacy in this study is placed as a moderation variable. Understanding of the principles, products, contracts, risks, and mechanisms of Islamic finance is suspected to be able to determine how effectively MSME actors use their financial resources. This research is relevant because previous studies have shown results that are not always consistent regarding the influence of financial factors on the performance of MSMEs, while research that places Islamic financial literacy as a moderator is still relatively limited.

This study aims to test six hypotheses: the influence of financial management, financial behavior, and financial capital on the performance of MSMEs and the ability of Islamic financial literacy to moderate each of these relationships.

LITERATURE STUDY

Resource-Based View

RBV views internal resources and capabilities as potential sources of competitive advantage. Barney (1991) explains that valuable, rare, imperfectly imitable, and non-substitutable resources can support sustained competitive advantage. In this study, financial capital is classified as a financial resource, while financial management and financial behavior are treated as internal capabilities because they represent processes for coordinating, allocating, and controlling financial resources. Teece, Pisano, and Shuen (1997) further emphasize that organizational and managerial processes are important mechanisms through which firms coordinate and combine resources. Thus, the RBV argument in this study is not that every financial practice is inherently rare or inimitable, but that the quality of internal financial capabilities can influence how effectively available resources are converted into business outcomes.

Financial Management and MSME Performance

Financial management includes planning, recording, controlling, and evaluating business finances. Previous empirical findings are mixed. Amaliani and Mulyani (2024) reported that financial management behavior did not significantly affect MSME performance in Medan, whereas Glorianismus et al. (2025) found a significant positive relationship between financial management and MSME performance. These differences indicate that the relationship may vary across business contexts and samples. Based on RBV and the empirical evidence, the study hypothesizes that financial management is positively associated with MSME performance.

Financial Behavior and MSME Performance

Financial behavior describes the habits and decision-making processes involved in using financial resources. Prior studies also report mixed evidence. Amaliani and Mulyani (2024) found no significant effect of financial management behavior on MSME performance, while Saragih et al. (2026) reported a positive and significant relationship between financial behavior and the performance of culinary MSMEs in Medan. The inconsistency provides a basis for testing the relationship in the Lubuk Alung context. Accordingly, the study hypothesizes that financial behavior is positively associated with MSME performance (H2).

Financial Capital and MSME Performance

Financial capital is needed to finance operational activities and business development. The availability of capital allows MSMEs to meet production, investment, and expansion needs. Previous evidence generally supports the relevance of financial capital to MSME performance. Sari and Hadyarti (2024) found a positive and significant effect of financial capital on MSME performance, while Glorianismus et al. (2025) likewise identified financial capital as a significant factor in MSME performance. From the RBV perspective, capital represents a financial resource that can support the deployment of other business capabilities. Therefore, the study hypothesizes that financial capital is positively associated with MSME performance (H3).

Sharia Financial Literacy as a Moderation Variable

Islamic financial literacy is related to the ability to understand and apply financial principles that are in accordance with sharia. In this study, Islamic financial literacy is tested as a condition that can strengthen or weaken the relationship between financial factors and the performance of MSMEs.

METHOD

The research uses a quantitative approach with an explanatory research design. The location of the research is Lubuk Alung District, Padang Pariaman Regency. The population consists of 3,553 MSMEs, based on the 2026 data of the Dinas Perdagangan, Tenaga Kerja, Koperasi dan UKM Kabupaten Padang Pariaman. The sampling technique is purposive sampling because the study requires respondents with specific characteristics relevant to the research variables. The inclusion criteria were: (1) MSMEs with an active business that had operated for at least three years; (2) businesses located in Lubuk Alung District; and (3) business actors who had used financial technology services such as digital payments or digital transfers. A total of 100 MSME actors met these criteria and were included in the analysis. The sample size follows the minimum rule used in the thesis of five times the 20 indicators in the research model ($5 \times 20 = 100$). As an additional methodological check, Hair et al. (2021) note that the 10-times rule can be used as a rough minimum guideline based on the maximum number of structural arrows pointing to an endogenous construct, while statistical power should also be considered. In the present model, the maximum number of arrows pointing to MSME performance is six, giving a 60-case minimum under that rough criterion; therefore, the 100 observations exceed that threshold. The study does not claim a formal a priori power analysis, so the sample-size justification is presented as a methodological minimum rather than as proof of a particular statistical power level. The analysis was carried out using PLS-SEM. Model testing included the evaluation of the outer model and inner model, while the hypothesis test used the bootstrapping procedure. The hypothesis was stated to be supported if it met the test criteria used in the thesis, namely t-statistic ≥ 1.645 in the one-tailed test and p-value < 0.05 .

RESULTS AND DISCUSSION

Characteristics of Respondents

The research involved 100 MSME actors. Based on the type of business, respondents were dominated by the culinary sector as many as 39 respondents (39.00%) and trade as many as 30 respondents (30.00%). Furthermore, services were 15 respondents (15.00%), agriculture/plantation/fisheries 9 respondents (9.00%), processing industry 5 respondents (5.00%), and handicrafts/creative 3 respondents (3.00%). Based on the workforce, 90 respondents (90.00%) had 1–3 workers, 8 respondents (8.00%) had 4–6 workers, while each of 1 respondent (1.00%) had 7–10 workers and more than 10 workers.

Model Evaluation

The R-square value of MSME Performance of 0.500 indicates that 50.0% variation in MSME Performance can be explained by Financial Management, Financial Behavior, and Financial Capital in the model. The R-square adjusted value of 0.462 indicates the explanatory ability of the model after predictor adjustment of 46.2%. The Q^2 predict value of 0.366 indicates that the model has

predictive relevance.

The f-square values were 0.028 for Financial Management, 0.005 for Financial Behavior, 0.288 for Financial Capital, 0.038 for the $Z \times X1$ interaction, 0.001 for $Z \times X2$, and 0.058 for $Z \times X3$. Among the three direct predictors, Financial Capital had both the largest path coefficient ($\beta=0.450$) and the largest f^2 value (0.288). This indicates the strongest estimated direct association and the largest local effect size among the direct predictors in this model. However, this should not be interpreted as formal statistical evidence that Financial Capital is universally “dominant,” because the study did not perform a formal coefficient-comparison test across predictors.

Table 1. Hypothesis Testing

Relation	Original Sample	t-statistic	p-value	Verdict	Remarks
$X1 \rightarrow Y$	0,165	1,363	0,087	H1 rejected	Positive, insignificant
$X2 \rightarrow Y$	0,069	0,627	0,265	H2 rejected	Positive, insignificant
$X3 \rightarrow Y$	0,450	4,383	0,000	H3 accepted	Positive and significant
$Z \times X1 \rightarrow Y$	-0,227	1,588	0,056	H4 rejected	Negative moderation, insignificant
$Z \times X2 \rightarrow Y$	0,218	1,658	0,049	H5 accepted	Positive and significant moderation
$Z \times X3 \rightarrow Y$	0,026	0,254	0,400	H6 rejected	Positive, insignificant moderation

The Influence of Financial Management on MSME Performance

Financial Management had a positive coefficient but did not show a statistically significant direct effect on MSME Performance in this sample ($\beta=0.165$; $t=1.363$; $p=0.087$). Because the t-statistic is below 1.645 and the p-value is above 0.05, H1 was not supported. Thus, the study did not find a statistically significant direct effect of financial management on MSME performance among the sampled MSMEs in Lubuk Alung. This result should not be interpreted as evidence that financial management has no effect in all MSMEs. Previous empirical findings are mixed: Amaliani and Mulyani (2024) reported that financial management behavior did not significantly affect MSME performance, whereas Glorianismus et al. (2025) found a positive and significant effect of financial management on MSME performance. The difference suggests that the relationship may vary across business contexts, samples, and operational measures. In the present study, the available evidence supports only the conclusion that a statistically significant direct effect was not detected in the sample.

The Influence of Financial Behavior on MSME Performance

Financial Behavior had a positive coefficient but did not show a statistically significant direct effect on MSME Performance in this sample ($\beta=0.069$; $t=0.627$; $p=0.265$). Therefore, H2 was not supported. The result indicates that a statistically significant direct relationship between financial behavior and MSME performance was not detected among the sampled businesses. This finding is consistent with Amaliani and Mulyani (2024), who reported no significant effect of financial management behavior on MSME performance. However, it differs from Saragih, Daryana, and Damanik (2026), who found a positive and significant effect of financial behavior on the performance of culinary MSMEs in Medan. The mixed evidence indicates that the contribution of financial behavior to MSME performance can differ across settings and research designs; accordingly, the present finding should be interpreted as a sample-specific statistical result rather than as evidence that financial behavior is generally unrelated to performance.

The Influence of Financial Capital on MSME Performance

Financial Capital had a positive and statistically significant association with MSME Performance ($\beta=0.450$; $t=4.383$; $p<0.001$). H3 was supported. Among the three direct relationships tested, this coefficient was the largest, and its f^2 value (0.288) was also the largest among the direct predictors. Thus, within this model and sample, financial capital showed the strongest estimated direct association and local effect size; this descriptive comparison is not a formal test of statistical dominance. The finding is consistent with Sari and Hadyarti (2024), who reported a positive and significant effect of financial capital on MSME performance, and with Glorianismus et al. (2025), who also found a significant relationship.

Moderation of Islamic Financial Literacy in Financial Management

The interaction between Islamic financial literacy and financial management produced a negative coefficient ($\beta=-0.227$), but the interaction was not statistically significant ($t=1.588$; $p=0.056$). Therefore, H4 was not supported. The result means that this study did not find statistically significant evidence that Islamic financial literacy changes the strength of the relationship between financial management and MSME performance in the sample. The negative sign describes the estimated direction of the interaction coefficient, but because the interaction was not statistically significant, it should not be interpreted as evidence of a reliable negative moderating effect.

Moderation of Sharia Financial Literacy on Financial Behavior

The interaction between Islamic financial literacy and financial behavior was positive and statistically significant ($\beta=0.218$; $t=1.658$; $p=0.049$). H5 was supported. The result indicates that, within the study sample, higher Islamic financial literacy was associated with a stronger positive relationship between financial behavior and MSME performance. A context-specific explanation is that financial behavior concerns day-to-day financial choices and habits—such as spending, saving, financing, and investment decisions—so knowledge of Islamic financial principles can be more directly translated into the quality of those decisions. The thesis specifically describes Islamic financial literacy as encompassing understanding of sharia principles, financial products and contracts, prohibited elements such as *riba*, *gharar*, and *maysir*, and the application of sharia principles in financial decision-making. This makes it theoretically plausible that literacy strengthens the way financial behavior is converted into business outcomes. The finding is also consistent with prior evidence linking Islamic financial literacy with financial behavior and MSME financial outcomes, including Rohmania et al. (2023) and Haryadi et al. (2025).

Moderation of Sharia Financial Literacy on Financial Capital

The interaction between Islamic financial literacy and financial capital was positive but not statistically significant ($\beta=0.026$; $t=0.254$; $p=0.400$). Therefore, H6 was not supported. Although the coefficient is positive, the statistical evidence does not support a moderating effect of Islamic financial literacy on the relationship between financial capital and MSME performance in this sample. One possible interpretation consistent with the study framework is that the availability and adequacy of financial capital function more directly as a resource for operations and business development, whereas Islamic financial literacy concerns knowledge and decision-making. Consequently, higher literacy does not necessarily alter the amount or availability of capital itself. The significant direct association of financial capital should therefore be distinguished from the non-significant interaction effect.

CONCLUSION

The study found positive but statistically insignificant direct coefficients for financial management and financial behavior, while financial capital had a positive and statistically significant direct association with MSME performance in the sample. Thus, the study did not find statistically significant direct effects of financial management and financial behavior on performance within the sampled MSMEs, rather than demonstrating an absence of effect in general. Islamic financial literacy was not found to significantly moderate the relationships between financial management and performance or between financial capital and performance. In contrast, the interaction between

Islamic financial literacy and financial behavior was found to be positive and statistically significant. A plausible explanation is that literacy concerning sharia principles and financial decision-making can be translated more directly into day-to-day financial behavior than into the amount of available capital or routine financial administration. The model explains 50.0% of the variation in MSME performance and has predictive relevance based on Q^2_{predict} of 0.366. These findings should be interpreted within the cross-sectional design, purposive sampling, and study context of MSMEs in Lubuk Alung District.

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