

## The Influence of Soft Skills and Hard Skills on Financial Well-being Among SME Owners in Indonesia

Novia Utami<sup>a\*</sup>, Ana Sriekaningsih<sup>b</sup>

<sup>a</sup>Atma Jaya Catholic University of Indonesia, Indonesia, [novia.utami@atmajaya.ac.id](mailto:novia.utami@atmajaya.ac.id)

<sup>b</sup>Politeknik Bisnis Kalimantan Utara, Indonesia, [sriekaningsih.ana@gmail.com](mailto:sriekaningsih.ana@gmail.com)

\*Correspondence: [novia.utami@atmajaya.ac.id](mailto:novia.utami@atmajaya.ac.id)

### Abstract

This study aims to analyze the relationship between soft skills and hard skills possessed by MSME (Micro, Small, and Medium Enterprises) owners and their financial well-being. Soft skills, such as communication, adaptability, and emotional intelligence, alongside hard skills, including technical and managerial competencies, are critical factors in enhancing entrepreneurial performance and decision-making. Using a random sampling method, the study collected data from 200 MSME owners across various islands in Indonesia. Hypothesis testing was performed using SPSS software to examine the proposed relationships. The findings reveal that both soft skills and hard skills have a significant positive influence on the financial well-being of MSME owners. Specifically, higher levels of these skills contribute to better financial outcomes, including effective resource management and improved business sustainability. These results underscore the importance of integrating skill development programs into MSME capacity-building initiatives.

### Keywords:

Soft Skills;  
Hard Skills;  
Financial Well-being;  
MSME

## 1. Introduction

Micro, Small, and Medium Enterprises (SMEs) are widely recognized as a key driver of economic development in Indonesia. SMEs contribute significantly to employment generation, innovation, and overall economic growth, making them a vital part of the country's economic fabric. According to The Coordinating Ministry for Economic Affairs, (2023), SMEs account for over 99% of all businesses and employ approximately 97% of the workforce. Furthermore, SMEs contribute around 61% to Indonesia's GDP, underlining their importance in the national economy. However, despite their significant role, many SME owners face numerous obstacles that hinder their ability to achieve long-term financial well-being.

One of the primary challenges facing SME owners in Indonesia is the lack of adequate business skills. These skills are crucial for navigating the complexities of entrepreneurship, managing resources effectively, and adapting to market demands. Business skills can be categorized into two main types: soft skills and hard skills. Soft skills, such as leadership, communication, negotiation, and problem-solving abilities, are critical for managing teams, interacting with customers, and maintaining positive relationships with stakeholders (Ratten, 2020). On the other hand, hard skills refer to technical knowledge and expertise, such as financial management, marketing, and strategic planning, which are essential for the operational success and financial sustainability of an SME (Santos et al., 2021).

Despite the growing recognition of the importance of these skills, many SME owners in Indonesia, particularly those in rural areas, lack the necessary training and education to effectively manage their businesses. This skills gap often leads to inefficiencies in business operations, poor financial decision-making, and an inability to compete in a rapidly evolving market environment. Research by Eniola & Entebang, (2017) highlights that SMEs with owners who possess strong managerial and financial skills tend to have better financial outcomes, as they are better equipped to make informed decisions regarding investments, cost management, and business expansion. However, the lack of access to education and professional development opportunities remains a significant barrier for many SME owners in Indonesia (Tambunan, 2019).

The financial well-being of SME owners is closely linked to their ability to manage financial resources effectively. This includes the ability to secure funding, manage cash flow, and optimize profits. A study by Uddin et al., (2023) indicates that SME owners who possess financial literacy and knowledge are more likely to make sound financial decisions, leading to improved business performance and financial stability. In contrast, SME owners who lack such skills often struggle with financial mismanagement, which can result in high levels of debt, cash flow problems, and ultimately, business failure (Nkwinka & Akinola, 2023).

Furthermore, the external environment also plays a crucial role in shaping the financial well-being of SME owners. Access to finance remains one of the biggest challenges for SMEs in Indonesia. A report by the Asian Development Bank, (2021) reveals that many SMEs face difficulties in securing loans from formal financial institutions due to perceived high risks and lack of collateral. This highlights the need for financial literacy not only in terms of internal management but also in navigating the external financial landscape.

Soft skills, also known as interpersonal or emotional intelligence skills, refer to non-technical abilities that facilitate effective communication, teamwork, leadership, and conflict resolution. These skills are fundamental for entrepreneurs to engage with employees, customers, and business partners, and they foster a conducive business environment. According to Marques & Dhiman, (2017), essential soft skills such as leadership, communication, adaptability, and emotional intelligence significantly impact the growth and performance of SMEs. These skills promote collaboration, improve decision-making, and enhance overall organizational culture, which in turn supports the long-term success and sustainability of businesses. Moreover, Barrientos, (2021) emphasizes that emotional intelligence, which involves self-awareness and empathy, is crucial for SME owners to manage stress, navigate challenges, and build strong interpersonal relationships that are vital for business development.

On the other hand, hard skills refer to the technical expertise and specialized knowledge required for specific tasks such as financial management, marketing, operations, and strategic planning. Hard skills are vital for managing the technical aspects of running a business, particularly in areas that directly influence financial decision-making. Financial literacy, budgeting, cost control, and market analysis are examples of hard skills that can help SME owners make informed decisions, ensuring business growth and profitability. According to Kotsios, (2023), SMEs that possess strong technical expertise and robust management capabilities are more likely to succeed in competitive markets. Furthermore, Hasanudin, (2023) argue that hard skills, especially in financial management, are essential for managing cash flows, securing investment, and ensuring business survival, particularly during economic downturns.

Financial well-being can be defined as the ability to manage one's financial resources effectively, maintain financial security, and make decisions that enhance long-term life satisfaction Mallick & Debasish, (2021). For SME owners, financial well-being is not only about maintaining personal financial security but also ensuring that their business remains financially stable and profitable. Achieving financial well-being requires effective income management, expense control, and the capacity to adapt to financial risks. Financial literacy, as part of hard skills, plays a critical role in enhancing financial well-being. Mallick & Debasish, (2021) emphasize that self-control, budget management, and financial knowledge are key to building a secure financial future. They argue that SME owners who possess financial literacy are better equipped to make prudent financial decisions that not only benefit their business operations but also contribute to their personal financial stability.

Moreover, research by Lusardi & Mitchell, (2023) indicates that financial literacy leads to improved business outcomes by equipping entrepreneurs with the tools needed to manage debt, savings, and investments effectively. Financially literate business owners are less likely to make impulsive financial decisions and more likely to engage in long-term planning, which is essential for sustaining business growth.

Although the importance of soft and hard skills in entrepreneurship has been widely acknowledged, there remains a notable gap in research examining how these two skill sets interact to influence the financial well-being of SME owners. While existing studies have explored the impact of soft skills Marques & Dhiman, (2017) and financial literacy Mallick & Debasish, (2021) individually, limited research has been conducted on how the combination of both sets of skills influences financial outcomes for SMEs. Moreover, most of the existing literature is based on developed economies, where the entrepreneurial ecosystem and resources are vastly different from those in emerging economies like

Indonesia. As a result, there is a lack of understanding regarding the unique challenges and opportunities that SMEs in developing countries face in relation to skill development and financial well-being.

## 2. Method

This research employs a quantitative research methodology to examine the impact of soft skills and hard skills on the financial well-being of SME owners in Indonesia. The research targets SME owners from various sectors across Indonesia, a crucial segment of the country's economy. Given Indonesia's vast geographic and cultural diversity, the study seeks to capture a wide range of skill profiles and financial experiences among SME owners. A random sampling technique is utilized to ensure the sample is representative of the broader SME population. This method allows every SME owner an equal chance of selection, enhancing the external validity and generalizability of the findings across different regions and industries. The data collection process involves the use of survey questionnaires, which are distributed to 200 SME owners across various provinces. These questionnaires are structured to gather detailed information on the soft skills and hard skills of the respondents, along with their perceptions of financial well-being.

The indicators for soft skills are adapted from Marques & Dhiman, (2017), who identified 19 core soft skills that influence leadership and performance, such as Purpose, Trust, Moral Behavior, Value, Vision, Authenticity, Emotional Intelligence, Spirituality, Sustainability, Mindfulness, Empathy, Motivation, Communication, Dependability, Creativity, Initiative, Self-confidence, Resilience, and Perseverance. The hard skills indicators, also based on Marques and Dhiman's framework, include competencies such as ambition, information technology proficiency, and planning. These skills are particularly relevant to the strategic and operational management of SMEs. The financial well-being indicators used in this study are adapted from Mallick & Debasish, (2021), focusing on subjective financial assessments, such as satisfaction with current financial situations, comfort with financial conditions, and perceived financial pressure. This combination of soft and hard skills as independent variables, alongside financial well-being as the dependent variable, allows for a comprehensive analysis of the relationship between these factors. The data collected will be analyzed using multiple regression analysis with SPSS software, which is well-suited for examining the relationships between multiple variables. Regression analysis will enable the researcher to assess how much the soft and hard skills of SME owners contribute to their financial well-being, controlling for potential confounders. By examining the statistical significance of the relationships between the variables, this study aims to provide valuable insights into how both interpersonal and technical skills affect the financial stability and success of SME owners. The findings will have important implications for entrepreneurship education and policy, suggesting that skill development programs targeting both soft and hard skills could enhance the financial well-being of SME owners.

## 3. Results and Discussion

### 3.1 Results

#### Validity Test

Table 1. Validity Test Result

| Soft Skills | Pearson Correlation | Sig. (2-tailed) | N   |
|-------------|---------------------|-----------------|-----|
| X1.1        | .380**              | .000            | 200 |
| X1.2        | .232**              | .001            | 200 |
| X1.3        | .396**              | .000            | 200 |
| X1.4        | .284**              | .000            | 200 |
| X1.5        | .272**              | .000            | 200 |
| X1.6        | .322**              | .000            | 200 |
| X1.7        | .307**              | .000            | 200 |
| X1.8        | .398**              | .000            | 200 |
| X1.9        | .344**              | .000            | 200 |

|             |        |      |     |
|-------------|--------|------|-----|
| X1.10       | .424** | .000 | 200 |
| X1.11       | .445** | .000 | 200 |
| X1.12       | .435** | .000 | 200 |
| X1.13       | .387** | .000 | 200 |
| X1.14       | .423** | .000 | 200 |
| X1.15       | .271** | .000 | 200 |
| X1.16       | .585** | .000 | 200 |
| X1.17       | .616** | .000 | 200 |
| X1.18       | .565** | .000 | 200 |
| X1.19       | .509** | .000 | 200 |
| X1.20       | .350** | .000 | 200 |
| X1.21       | .564** | .000 | 200 |
| Soft Skills | 1      |      | 200 |

| Hard Skills | Pearson Correlation | Sig. (2-tailed) | N   |
|-------------|---------------------|-----------------|-----|
| X2.1        | .674**              | .000            | 200 |
| X2.2        | .534**              | .000            | 200 |
| X2.3        | .604**              | .000            | 200 |
| X2.4        | .529**              | .000            | 200 |
| X2.5        | .629**              | .000            | 200 |
| X2.6        | .517**              | .000            | 200 |
| X2.7        | .633**              | .000            | 200 |
| X2.8        | .555**              | .000            | 200 |
| X2.9        | .652**              | .000            | 200 |
| Hard Skills | 1                   |                 | 200 |

| Financial Well-being | Pearson Correlation | Sig. (2-tailed) | N   |
|----------------------|---------------------|-----------------|-----|
| Y1                   | .760**              | .000            | 200 |
| Y2                   | .577**              | .000            | 200 |
| Y3                   | .827**              | .000            | 200 |
| Y4                   | .763**              | .000            | 200 |
| Y5                   | .797**              | .000            | 200 |
| Y6                   | .773**              | .000            | 200 |
| Y7                   | .702**              | .000            | 200 |
| Financial Well-being | 1                   |                 | 200 |

The results indicate that all items in the variables are valid, as evidenced by the significance values being less than 0.05. This suggests that the measurement items effectively capture the constructs they are intended to measure.

### Reliability Test

Table 2. Realibility Test Result

| Variable             | Cronbach's Alpha | N of Items |
|----------------------|------------------|------------|
| Soft Skills          | .755             | 21         |
| Hard Skills          | .768             | 9          |
| Financial Well-being | .865             | 7          |

The Cronbach's alpha value greater than 0.70 indicates that all the variables in the study have good reliability. Cronbach's alpha is a measure of internal consistency, which evaluates how closely related a set of items is as a group. A value above 0.70 is generally considered acceptable, meaning that the items within each variable are consistent in measuring the same underlying construct. This suggests that the measurement scale used in the study is reliable.

### Respondent Characteristic

Table 3. The Characteristics of Respondent

| business capital less than 1 billion       |                  | Frequency | Percent | Valid Percent | Cumulative Percent |
|--|------------------|-----------|---------|---------------|--------------------|
| Valid                                      | No               | 25        | 12.5    | 12.5          | 12.5               |
|  | Yes              | 175       | 87.5    | 87.5          | 100.0              |
|  | Total            | 200       | 100.0   | 100.0         |                    |
| annual sales less than 2 billion           |                  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid                                      | No               | 25        | 12.5    | 12.5          | 12.5               |
|  | Yes              | 175       | 87.5    | 87.5          | 100.0              |
|  | Total            | 200       | 100.0   | 100.0         |                    |
| has been an entrepreneur for over 6 months |                  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid                                      | No               | 28        | 14.0    | 14.0          | 14.0               |
|  | Yes              | 172       | 86.0    | 86.0          | 100.0              |
|  | Total            | 200       | 100.0   | 100.0         |                    |
| the business has gone digital              |                  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid                                      | No               | 38        | 19.0    | 19.0          | 19.0               |
|  | Yes              | 162       | 81.0    | 81.0          | 100.0              |
|  | Total            | 200       | 100.0   | 100.0         |                    |
| business location                          |                  | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid                                      | Others           | 12        | 6.0     | 6.0           | 6.0                |
|  | Pulau Jawa       | 95        | 47.5    | 47.5          | 53.5               |
|  | Pulau Kalimantan | 20        | 10.0    | 10.0          | 63.5               |
|  | Pulau Papua      | 13        | 6.5     | 6.5           | 70.0               |
|  | Pulau Sulawesi   | 24        | 12.0    | 12.0          | 82.0               |
|  |                  |           |         |               |                    |

|                  |     |       |       |       |
|------------------|-----|-------|-------|-------|
| Pulau<br>Sumatra | 36  | 18.0  | 18.0  | 100.0 |
| Total            | 200 | 100.0 | 100.0 |       |

The characteristics of the survey respondents reveal that the majority of business owners in the sample operate with a business capital of less than 1 billion, with 87.5% reporting this, suggesting that most entrepreneurs have small-scale businesses. In terms of annual sales, a similar proportion, 87.5%, also report sales of less than 2 billion, indicating that their businesses generally operate on a smaller financial scale. Most respondents (86%) have been entrepreneurs for more than 6 months, highlighting a group of relatively experienced business owners. Additionally, a significant 81% of the respondents have digitalized their businesses, reflecting the increasing trend of digital adoption in the entrepreneurial sector. Geographically, the majority of businesses are located in Java, with 47.5% of respondents based there, while others are spread across Sumatra (18%), Sulawesi (12%), Kalimantan (10%), and Papua (6.5%). A small group of respondents (6%) did not specify their location. Overall, the findings suggest that the sample predominantly consists of experienced, small-scale business owners, with a notable embrace of digital technology and a geographic concentration in Java and Sumatra.

### Regression Analysis

Table 4. R Table

| Model | R                 | R<br>Square | Adjusted<br>R<br>Square | Std.<br>Error of<br>the<br>Estimate |
|-------|-------------------|-------------|-------------------------|-------------------------------------|
| 1     | .651 <sup>a</sup> | .424        | .419                    | 279.423                             |

Table 5. F-test Table

| Model |            | Sum of<br>Squares | df  | Mean<br>Square | F      | Sig.              |
|-------|------------|-------------------|-----|----------------|--------|-------------------|
|       | Regression | 1.133.877         | 2   | 566.939        | 72.612 | .000 <sup>b</sup> |
| 1     | Residual   | 1.538.123         | 197 | 7.808          |        |                   |
|       | Total      | 2.672.000         | 199 |                |        |                   |

Table 6. t-test Result

| Model |             | Unstandardized<br>Coefficients |               | Standardized<br>Coefficients | t     | Sig. |
|-------|-------------|--------------------------------|---------------|------------------------------|-------|------|
|       |             | B                              | Std.<br>Error | Beta                         |       |      |
|       | (Constant)  | -1.973                         | 2.794         |                              | -.706 | .481 |
| 1     | Soft Skills | .175                           | .046          | .303                         | 3.827 | .000 |
|       | Hard Skills | .415                           | .083          | .397                         | 5.013 | .000 |

The analysis presented in Tables 4, 5, and 6 highlights the relationship between soft skills, hard skills, and financial well-being for SME owners in Indonesia. The regression model, with an R value of 0.651 and an R-square of 0.424, suggests a moderate positive correlation between the independent variables (soft skills and hard skills) and the dependent variable (financial well-being). This means that about 42.4% of the variance in financial well-being can be attributed to these two predictors. The F-test results indicate a statistically significant overall model, with an F-value of 72.612 and a p-value of 0.000, which confirms that soft and hard skills together explain a substantial portion of financial well-being. Furthermore, the t-test results reveal that both soft skills (with a coefficient of 0.175 and a p-value of 0.000) and hard skills (with a coefficient of 0.415 and a p-value of 0.000) significantly contribute to the



financial well-being of SME owners. Soft skills, such as emotional intelligence and communication, and hard skills, like strategic planning and IT knowledge, have a positive impact, with hard skills demonstrating a slightly stronger effect. These findings underscore the importance of both soft and hard skills in enhancing the financial outcomes of SMEs, aligning with existing research that links entrepreneurial competencies to financial success.

### 3.2 Discussion

The results of this study strongly support the assertion that both soft skills and hard skills significantly influence the financial well-being of SME owners in Indonesia. The regression analysis shows that these two sets of skills together account for approximately 42.4% of the variance in financial well-being, emphasizing the importance of both competencies in ensuring entrepreneurial success. This finding aligns with existing literature suggesting that entrepreneurial performance and financial outcomes are heavily influenced by a balance of technical expertise (hard skills) and personal capabilities (soft skills).

Soft skills, including emotional intelligence, resilience, communication, and motivation, are crucial for managing the interpersonal aspects of running a business, such as building relationships with employees, customers, and suppliers. These skills contribute to better decision-making, effective conflict resolution, and the ability to adapt to changing market conditions, all of which are essential for the sustainability and growth of a business (Marques & Dhiman, 2017). Soft skills are particularly important in enhancing entrepreneurs' leadership capabilities, fostering trust, and cultivating an innovative mindset, which can ultimately enhance financial well-being by improving the overall functioning of the business.

On the other hand, hard skills such as financial management, strategic planning, and technological proficiency have a more direct impact on business operations. As SME owners increasingly navigate the complexities of a digital economy, the importance of having strong technical skills becomes even more evident. Hard skills empower entrepreneurs to make informed decisions, optimize business processes, and implement strategies that drive profitability and efficiency (Mallick & Debasish, 2021). The significant effect of hard skills in this study further emphasizes their role in shaping financial outcomes, particularly in managing resources and ensuring long-term business viability.

Moreover, the study's results highlight the growing trend of digital transformation among SMEs in Indonesia. The majority of respondents report that their businesses have transitioned to digital platforms, a move that often requires a combination of both hard and soft skills. Digital literacy, a critical aspect of hard skills, enables entrepreneurs to expand their market reach, enhance operational efficiency, and streamline customer interactions, all of which contribute to improved financial outcomes. This digital shift underscores the evolving nature of business management in the contemporary landscape, where technological proficiency is increasingly intertwined with the financial health of businesses.

## 4. Conclusion

In conclusion, this study underscores the significant influence of both soft skills and hard skills on the financial well-being of SME owners in Indonesia. The analysis demonstrates that these skills collectively account for a substantial portion of the variance in financial outcomes, emphasizing their critical role in entrepreneurial success. Soft skills such as emotional intelligence, resilience, and communication, alongside hard skills like strategic planning and financial management, enable entrepreneurs to navigate challenges effectively, make informed decisions, and optimize business operations. These findings contribute to the existing body of research by highlighting the importance of a balanced skill set in driving business performance and ensuring financial stability in an increasingly digitalized market. However, this study is not without limitations. The cross-sectional nature of the research limits the ability to establish causal relationships, and the sample predominantly consists of SMEs already engaged in digital transformation, which may not fully represent the broader SME population. Future research could explore longitudinal studies to assess the long-term effects of skill development on financial well-being and expand the sample to include SMEs at various stages of digital adoption.

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