

The CFE Model of SME Financial Performance: Does Financial Literacy Really Matter?

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Abstract

Small and medium enterprises (SMEs) are the backbone of emerging economies, yet their financial performance remains constrained by low financial literacy, limited capital, and weak managerial orientation. Prior studies show inconsistent findings on the direct impact of financial literacy on SME performance, suggesting the presence of mediating and moderating mechanisms that warrant systematic exploration. This study develops and tests the CFE model—Capital Adequacy, Financial Management Practices, and Entrepreneurial Orientation—to explain SME financial performance in Indonesia. Drawing on 110 SMEs in West Nusa Tenggara, data were collected through structured questionnaires in September 2025 and analyzed using structural equation modeling with Smart PLS 3.0. The results reveal that financial literacy has no direct effect on financial performance but exerts a significant indirect effect through dual mediation. Financial management practices emerge as the strongest mediator, while entrepreneurial orientation partially mediates the relationship. Contrary to expectations on previous studies, capital adequacy does not moderate the relationship but acts as a significant antecedent directly influencing financial performance. The model explains 44.2% of the variance in SME financial performance. These findings highlight that financial knowledge alone is insufficient; it must be consistently implemented through sound financial management practices to yield performance gains. The study contributes theoretically by integrating the Resource-Based View with Behavioral Theory and practically by offering policy implications that call for holistic SME development programs combining financial literacy training, practical mentoring, and entrepreneurial mindset enhancement.

Keywords:

financial performance
financial literacy,
SME
financial management
practices,
entrepreneurial
orientation, capital
adequacy,

1. Introduction

Small and Medium Enterprises (SMEs) play a crucial role in addressing economic and social challenges and in achieving development goals, both in developed and developing countries, particularly by reducing unemployment, increasing productivity, generating income, and creating the majority of jobs (Mashal, 2017). Nationally, SMEs contribute 61% of Gross Domestic Product (GDP) (Perekonomian, 2022). In West Nusa Tenggara, SMEs also make a significant contribution across the primary, secondary, and tertiary sectors (BPS, 2024). Nevertheless, SMEs continue to face persistent challenges such as low levels of financial literacy, limited capital, and weak entrepreneurial and managerial orientation, which hinder their ability to compete with larger firms (Kementerian Koperasi dan UKM, 2022; OJK, 2022; Suryani, Hanifah Sri, 2021)).

Financial literacy refers to the knowledge, skills, and confidence that influence attitudes and behavior to improve the quality of financial decision-making and management, with the aim of achieving prosperity and business development (OJK, 2017; USAID, 2009). In the context of SMEs,

financial literacy encompasses the ability of business owners to understand and apply key financial concepts—such as financial statements, cash flow management, financing options, risk management, budgeting, and tax compliance—in order to make informed decisions that foster business growth.

Empirical studies in West Nusa Tenggara reveal that SME owners often lack understanding of accounting and financial management in their businesses (Lestari et al., 2022; Widasari et al., 2024). NTB was chosen as the research location due to its unique characteristics, where a significant proportion of SMEs are family-run and operate informally, making it a representative region for exploring the challenges faced by SMEs in terms of financial literacy and management practices.

Existing studies show mixed results regarding the relationship between financial literacy and SME performance (Abdallah et al., 2025). For instance, financial literacy was found to significantly affect the performance and innovation of creative SMEs in Central Java (Wahyono, 2021). Some studies reported a direct effect (Tharmini & Lakshan, 2021), while others found insignificant relationships (Zayed et al., 2022). These inconsistencies suggest the existence of mediating mechanisms and boundary conditions that require systematic investigation.

In addition to financial literacy, entrepreneurial orientation also contributes to SME performance (Kalinic & Brouthers, 2022). Business managers and owners who are innovative, proactive, risk-taking, and able to seize opportunities are more likely to grow and develop. However, studies linking financial literacy with financial management practices remain limited.

Financial management practices, particularly working capital management, positively affect SME financial performance (Addin Al-Mawsheki, 2022; El-Ansary & Al-Gazzar, 2021). This relationship may be strengthened by capital adequacy, which acts as a moderating factor by enhancing the effectiveness of financial practices to improve performance (Fatoki, 2021; Rosyadah et al., 2022).

Although financial management practices have been established as mediators (Mang'ana et al., 2023; Otoo, 2024), the dual mediation path involving entrepreneurial orientation remains underexplored. Moreover, the moderating role of capital adequacy in reinforcing these mechanisms represents a critical theoretical gap in SME literature. This constitutes the knowledge gap addressed in this study, particularly in the context of small business financial management.

This study introduces and tests the CFE Model (Capital Adequacy, Financial Management Practices, and Entrepreneurial Orientation) in explaining SME financial performance. The research aims to address the identified gap by proposing and empirically examining a comprehensive model that analyzes: (1) the dual mediation of financial management practices and entrepreneurial orientation in the relationship between financial literacy and SME performance, and (2) the moderating effect of capital adequacy. The novelty of the CFE Model lies in its comprehensive approach—by combining multiple variables (capital adequacy, financial management practices, and entrepreneurial orientation), integrating multiple theoretical frameworks (Resource-Based View and Behavioral Theory), and applying it in the unique context of NTB SMEs, an underexplored region in prior research. The research questions are:

- a) To what extent do financial management practices and entrepreneurial orientation jointly mediate the relationship between financial literacy and SME performance?
- b) How does capital adequacy moderate the mediation path through financial management practices?

2. Method

This study was conducted across districts and cities in West Nusa Tenggara Province using questionnaires distributed to SME owners and managers. The fieldwork took place over 20 days in September 2025. The questionnaire employed a rating-scale format. A total of 150 questionnaires were distributed to SME owners and managers, with 130 completed questionnaires returned. After data screening, 115 questionnaires were deemed complete, and 110 valid questionnaires met the inclusion criteria. SMEs included in the study were required to have been operating for at least 3 years, ensuring that they had a sufficient operational history to assess financial performance. Informed consent was obtained from all participants, with assurances of confidentiality and voluntary participation. Participants were informed of their right to withdraw from the study at any point without penalty. Additionally, the study adhered to consumer protection regulations in handling data and ensuring that the survey was conducted ethically.

Pilot Test / Pre-test

Prior to the main data collection, the questionnaire was pre-tested on 30 respondents who were selected from outside the target sample of 150 SMEs. The pre-test aimed to assess the clarity, relevance, and reliability of the questionnaire items. Minor adjustments were made based on feedback from these respondents, ensuring that questions were clear, relevant, and easy to understand.

Instrument Validation

The instrument used to measure key constructs was carefully evaluated. For Financial Literacy (FL), the initial scale included 4 indicators, but after pre-testing and expert review, 3 out of the 4 indicators were retained as they demonstrated higher reliability and relevance. Similarly, for Entrepreneurial Orientation (EO), 3 out of the 4 original indicators were kept due to their stronger fit and alignment with the research context. The revised questionnaire was considered reliable and valid for use in this study.

Inclusion Criteria: SMEs included in this study were required to meet the following criteria:

- At least 3 years of operation.
- Response completeness (i.e., no missing data for key items).
- Valid and reasonable data patterns.

A total of 150 questionnaires were distributed, 130 returned, and 115 were complete. After data screening, 110 valid questionnaires were included in the final analysis.

Common Method Bias (CMB) Testing

To assess and control for common method bias, Harman's Single Factor Test was conducted using exploratory factor analysis (EFA). The results revealed that no single factor explained more than 50% of the total variance, indicating that CMB is not a concern. Additionally, Variance Inflation Factor (VIF) values were examined for each indicator in the model, and the results showed that all VIF values were below 3.3, suggesting that common method bias did not significantly affect the relationships between the study variables, as recommended by Kock (2021). This confirms that the data is free from significant method bias, ensuring the reliability of the findings.

Data were analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS) with Smart PLS 3.0. The constructs were measured as follows:

- Financial Literacy (FL): measured by knowledge, attitude, and behavior (Akhtar & Liu, 2018), with indicators such as understanding savings, investment, business budgeting, loan/credit risks, profit, and cash flow (Huston, 2010; Lusardi & Mitchell, 2011; OJK, 2022). SMEs with stronger financial knowledge are expected to achieve better financial performance (Ali & Li, 2021).
- Entrepreneurial Orientation (EO): measured by innovativeness, risk-taking, and proactiveness (Mantok et al., 2019), adopting Cardon's framework of creating, founding, and developing products/services (Adomako & Ahsan, 2022). Indicators included proactive market exploration, product/service innovation, responsiveness to change, and risk-taking (Istighfariani et al., 2024; Lumpkin & Dess, 1996).
- Financial Management Practices (FMP): measured by indicators such as routine financial reporting, cash planning, receivable/payable recording, and using financial reports for decision-making (Isibor et al., 2022; Mang'ana et al., 2023; Otoo, 2024).
- Capital Adequacy (CA): measured by perceptions of working capital sufficiency, ease of financial access, availability of expansion capital, and capital constraints (El-Ansary & Al-Gazzar, 2021; Fatoki, 2021; Hossain et al., 2023; Khan et al., 2020).
- SME Financial Performance (FP): measured by profit growth, sales growth, cash flow, and asset (Ahinful et al., 2023; Kaplan & Norton, 2001; Venkatraman & Ramanujam, 1987).

Data analysis involved descriptive statistics and SEM. The measurement model was evaluated for validity and reliability using factor loadings, Cronbach's Alpha, Composite Reliability, and Average Variance Extracted (AVE). The structural model was tested for direct, indirect, and moderating effects, with predictive accuracy assessed using R² values.

3. Results and Discussion

3.1 Results

3.1.1. Characteristics of SME Respondents

The demographic characteristics of the respondents in this study are presented in Table 1. This table outlines key factors such as gender, age, business duration, business sector, annual revenue, access to financing, and number of employees, which provide a comprehensive overview of the sample and offer insights into the composition of SMEs in West Nusa Tenggara. The following description highlights the distribution of these characteristics among the respondents.

Table 1

Demographic Characteristics of SME Respondents

Characteristic	Category	Frequency	Percentage (%)
Gender	Male	59	53.6%
	Female	51	46.4%
Age	25-34 Years	19	17.3%
	35-44 Years	39	35.5%
	45-54 Years	36	32.7%
	55-64 Years	16	14.5%
Business Duration	2-5 Years	40	36.4%
	6-10 Years	29	26.4%
	Over 10 Years	41	37.3%
Business Sector	Services	25	22.7%
	Trading	71	64.5%
	Processing	14	12.7%
	Agribusiness	1	0.9%
Annual Revenue	Below IDR 300 Million	94	85.5%
	IDR 300 Million - IDR 2.5 Billion	10	9.1%
	Above IDR 2.5 Billion	6	5.5%
Access to Financing	Have Borrowed	49	44.5%
	Never Borrowed	61	55.5%
Number of Employees	Less than 5 Employees	94	85.5%
	6-19 Employees	10	9.1%
	More than 19 Employees	6	5.5%

Source : Primary data (processed)

Explanation:

- Gender: A total of 53.6% of the respondents are male, and 46.4% are female, reflecting a relatively balanced gender distribution among SMEs in the region.
- Age: The majority of respondents fall within the age group of 35-44 years (35.5%), followed by those aged 45-54 years (32.7%). The youngest group, aged 25-34 years, accounts for 17.3%, while 14.5% are aged 55-64 years.
- Business Duration: The respondents show a relatively mature SME base, with 37.3% of businesses having been operational for more than 10 years, while 36.4% have been in business for 2-5 years.
- Business Sector: The largest proportion of SMEs operate in trading (64.5%), followed by services (22.7%), processing (12.7%), and a small percentage in agribusiness (0.9%).
- Annual Revenue: A large proportion of SMEs report an annual revenue below IDR 300 million (85.5%), while a smaller percentage falls within the IDR 300 million to IDR 2.5 billion range (9.1%) and 5.5% earn above IDR 2.5 billion.
- Access to Financing: Only 44.5% of SMEs have ever borrowed funds, indicating potential challenges related to financial accessibility.
- Number of Employees: The majority of SMEs are small-scale, with 85.5% employing less than 5 people.

3.1.2. Statistical Analysis Results

The measurement model exhibited strong reliability and validity across constructs. All indicator loadings exceeded the recommended threshold of 0.70, ranging from 0.74 to 0.90, confirming convergent validity. The Average Variance Extracted (AVE) for each construct surpassed 0.50, and the Composite Reliability values ranged between 0.87 and 0.90, indicating internal consistency. Discriminant validity was also established, as each construct shared more variance with its own indicators than with other constructs. To further confirm discriminant validity, the Heterotrait-Monotrait Ratio (HTMT) was calculated, yielding values below the threshold of 0.85, thus supporting the distinctiveness of the constructs (Hair Jr et al., 2022). The HTMT values for all pairs of constructs are shown in the table 2.

Table 2

Heterotrait-Monotrait (HTMT) Ratio for Discriminant Validity Assessment

Construct	CA	EO	FL	FMP	FP
CA					
EO	0.445				
FL	0.738	0.698			
FMP	0.733	0.687	0.913		
FP	0.756	0.445	0.535	0.631	

Source: Smart PLS 3.0 (processed)

Regarding the structural model, several key findings emerged. First, financial literacy (FL) did not have a significant direct effect on SME financial performance (FP) ($\beta = -0.06$, $p > 0.05$). This suggests that financial knowledge alone is insufficient to generate measurable performance outcomes in the absence of supporting mechanisms. Second, financial literacy exerted a strong indirect effect on financial performance through financial management practices (FMP) ($\beta = 0.749$, $p < 0.01$). SMEs with higher financial literacy were more likely to adopt structured budgeting, maintain accurate records, and apply financial planning, which in turn translated into improved profitability, liquidity, and growth. This confirms the critical role of FMP as a behavioral channel through which financial literacy enhances outcomes.

Third, entrepreneurial orientation (EO) also mediated the relationship between financial literacy and financial performance ($\beta = 0.558$, $p < 0.05$). While the mediation effect was weaker than FMP, it indicates that financial literacy supports the development of innovative, risk-taking, and proactive attitudes, which indirectly contribute to performance. However, the direct path from EO to FP was insignificant ($\beta = 0.01$, $p > 0.05$), implying that EO must be combined with other factors (such as adequate financial practices or market conditions) to deliver measurable performance benefits.

Fourth, capital adequacy (CA) did not play the expected moderating role in strengthening the mediation effect of FMP between FL and FP. Instead, it emerged as a significant direct antecedent of financial performance ($\beta = 0.51$, $p < 0.01$). SMEs with sufficient working capital were better positioned to finance operations, invest in opportunities, and weather financial shocks.

Finally, the overall model demonstrated good explanatory power, accounting for 44.2% of the variance in SME financial performance ($R^2 = 0.442$). This level of predictive accuracy is substantial in SME research, which often involves high heterogeneity and contextual variation.

Effect Size (f^2) Analysis:

The f^2 values were calculated to assess the significance of each predictor's contribution to the model. The effect size analysis revealed the following:

- Financial literacy (FL) had a large effect on financial performance (FP) through financial management practices ($f^2 = 0.29$).

- Entrepreneurial orientation (EO) showed a medium effect on financial performance ($f^2 = 0.17$), while capital adequacy (CA) had a large effect on performance ($f^2 = 0.35$).

These results suggest that financial literacy and capital adequacy have a more substantial impact on financial performance compared to entrepreneurial orientation, with financial management practices being the strongest mediator in the model.

To assess the predictive relevance of the model, we calculated the Q^2 values, which indicate how well the model can predict the variance of the dependent variable. The Q^2 values for Entrepreneurial Orientation (EO) and Financial Management Practices (FMP) were 0.009, indicating low predictive relevance, while the Q^2 value for Financial Performance (FP) was 0.0466, showing moderate predictive relevance. These results suggest that while the model has some predictive power for SME financial performance, it may benefit from incorporating additional factors to enhance its overall explanatory capability.

Table 3

Outer Loading

Indicator and Construct	Original Sample (O)	T Statistics (O/STDEV)	P Values
CA1 <- CA	0,817	12,831	0,000
CA2 <- CA	0,808	18,053	0,000
CA3 <- CA	0,903	49,699	0,000
EO2 <- EO	0,867	27,678	0,000
EO3 <- EO	0,888	23,695	0,000
EO4 <- EO	0,840	19,888	0,000
FL2 <- FL	0,868	27,918	0,000
FL4 <- FL	0,880	29,641	0,000
FMP1 <- FMP	0,869	37,020	0,000
FMP2 <- FMP	0,792	18,986	0,000
FMP3 <- FMP	0,787	17,769	0,000
FP1 <- FP	0,821	19,311	0,000
FP2 <- FP	0,869	24,883	0,000
FP4 <- FP	0,851	31,548	0,000

Source: Smart PLS 3.0 (processed)

Table 4

Construct Reliability dan Validity

Variable	Cronbach's Alpha	Rho_A	Composite Reliability	Average Variance Extracted (AVE)
CA	0,797	0,815	0,881	0,712
EO	0,832	0,835	0,899	0,748
FL	0,777	0,800	0,870	0,692
FMP	0,839	0,842	0,893	0,676
FP	0,857	0,868	0,902	0,697
Moderating Effect 1	1,000	1,000	1,000	1,000

Source: Smart PLS 3.0 (processed)

Figure 1
 Path Model Visualization of the CFE Model for SME Financial Performance

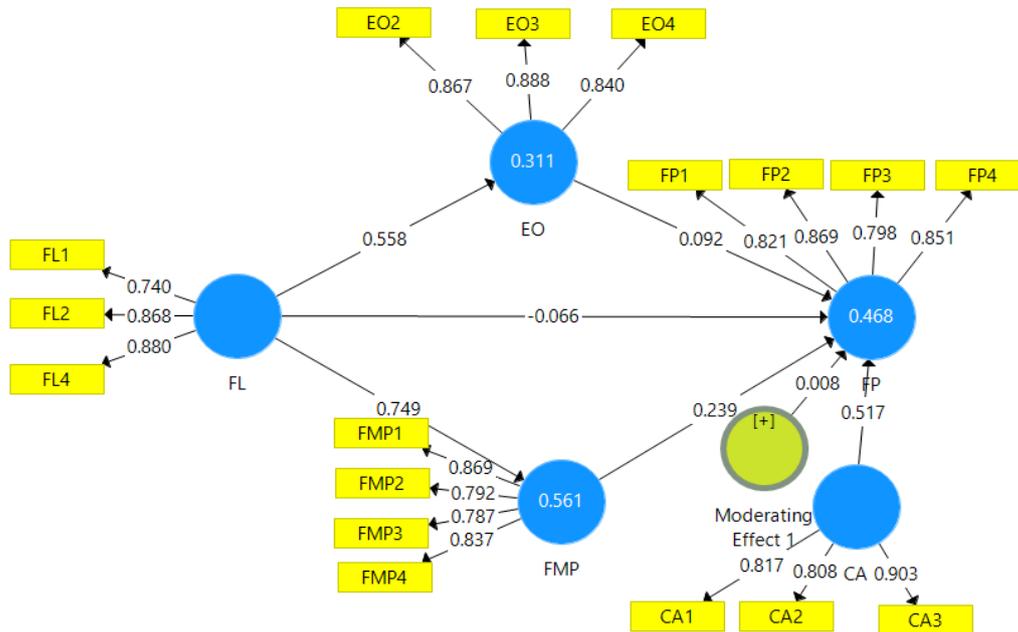


Table 5
 Results of Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values	Conclusion
CA -> FP	0,517	0,519	0,093	5,538	0,000	Supported
EO -> FP	0,092	0,089	0,108	0,857	0,392	Not supported
FL -> EO	0,558	0,560	0,080	6,943	0,000	Supported
FL -> FMP	0,749	0,749	0,050	14,870	0,000	Supported
FL -> FP	-0,066	-0,065	0,121	0,547	0,585	Not supported
FMP -> FP	0,239	0,243	0,109	2,190	0,029	Supported
Moderating Effect 1 -> FP	0,008	0,015	0,061	0,138	0,890	Not supported

Source: Smart PLS 3.0 (processed)

Table 6
 Indirect Effect of Financial Literacy to Financial Performance

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
FL -> FP	0,230	0,230	0,086	2,686	0,007

Source: Smart PLS 3.0 (processed)

3.2 Discussion

The empirical findings yield several noteworthy insights. First, the non-significant direct effect of financial literacy on performance underscores a recurring pattern in SME research: knowledge alone does not guarantee outcomes. This result resonates with previous studies by Zayed et al. (2022) and

Abdallah et al. (2024), who also reported non-significant direct effects between financial literacy and SME performance, in contrast to Tharmini and Lakshan (2021), who found a positive relationship. This divergence highlights the importance of contextualizing financial literacy within the managerial and institutional realities. In the context of West Nusa Tenggara (NTB), where many SMEs are family-run and often informally managed, the translation of financial knowledge into structured financial routines appears to be the decisive factor in influencing performance. Therefore, the relationship between financial literacy and performance may not always be direct but rather mediated by effective financial practices (e.g., cash flow management and budgeting).

Second, the strong mediating role of financial management practices aligns with prior research (Mang'ana et al., 2023; Otoo, 2024), reinforcing the argument that financial literacy must be operationalized through daily financial practices such as cash flow management, working capital planning, and record keeping. Without these routines, financial knowledge remains latent and underutilized. This finding suggests that training programs focusing solely on theoretical literacy may fail to enhance SME performance unless accompanied by hands-on mentorship in financial practices. This is particularly critical in regions like NTB, where informal business structures prevail, and formal financial management practices are often lacking.

Third, the partial mediation effect of entrepreneurial orientation (EO) provides new insight into how financial literacy influences entrepreneurial behavior. Specifically, financial literacy enhances the confidence and ability of SME owners to evaluate risks, explore opportunities, and innovate. However, the insignificance of EO's direct effect on financial performance suggests that EO alone is insufficient to drive outcomes, particularly in resource-constrained environments like NTB. This supports the view of Kalinic and Brouters (2022), who argue that entrepreneurial orientation must be embedded in supportive financial and institutional systems to generate tangible benefits. EO can stimulate entrepreneurial behavior, but without proper financial systems and capital access, it may not translate into financial success.

Fourth, the unexpected role of capital adequacy contributes a novel finding to the literature. Contrary to earlier studies (Fatoki, 2021; Rosyadah et al., 2022), where capital adequacy was assumed to be a moderating factor enhancing the effectiveness of financial practices, the present study finds that capital adequacy serves as a direct determinant of performance, rather than a conditional moderator. This suggests that capital functions as a foundational resource, essential for sustaining operations and implementing financial practices effectively. In NTB, where many SMEs face credit access barriers, sufficient capital is not just a complementary resource but a prerequisite for the survival and growth of these businesses. This finding calls attention to the need for improved access to capital in regions where financial inclusion remains a challenge.

Fifth, the explanatory power of the model ($R^2 = 0.442$) suggests that while the proposed CFE model captures a substantial portion of the variance in SME financial performance, other factors may also play significant roles. Specifically, government policies, market dynamics, and digital transformation are likely to contribute further to the unexplained variance. For example, government policies that provide support for digital literacy, entrepreneurial training, and financing opportunities could amplify the effects of financial literacy and financial management practices. Future research should incorporate these dimensions to build a more comprehensive model. Moreover, digital transformation could enhance the operational efficiency of SMEs by automating financial processes and expanding market access.

From a theoretical perspective, this study contributes to the Resource-Based View (RBV) by demonstrating that intangible resources (like financial literacy) must be complemented by capabilities (such as financial management practices and entrepreneurial orientation) and tangible resources (such as capital adequacy) to influence financial performance. The findings also integrate insights from Behavioral Theory, showing that managerial routines and decision-making patterns mediate the link between knowledge and outcomes. This theoretical integration broadens the understanding of how different types of resources and behaviors interact to drive SME success.

From a practical perspective, the findings underscore the importance of redesigning SME capacity-building initiatives. Policymakers and support institutions should integrate financial literacy programs with mentoring in financial management practices and entrepreneurial mindset development.

Specifically, financial literacy training should not only focus on theoretical knowledge but also involve practical, hands-on mentorship in areas like cash flow management and budgeting. Additionally, policies to expand access to affordable working capital remain critical, as capital adequacy directly impacts the ability of SMEs to implement financial practices effectively. Finally, the duration of mentoring programs should be reconsidered—programs lasting at least 6 months may be more effective in ensuring that financial practices become ingrained in daily operations.

In respect to boundary conditions and generalizability, the findings of this study are specific to West Nusa Tenggara, where family-run businesses and informal management practices are prevalent. As such, the generalizability of these findings to other regions of Indonesia or developing countries should be considered with caution. Future research should explore whether similar mechanisms apply in other regions with different economic, social, and institutional contexts, particularly in urban or more developed regions.

4. Conclusion

This study demonstrates that financial literacy alone does not directly enhance SME financial performance. Its influence operates through two mechanisms: financial management practices as the strongest mediator, and entrepreneurial orientation as a partial mediator. Capital adequacy, contrary to expectations, did not moderate the mediation pathways but instead functioned as a direct antecedent of performance. This finding underscores the importance of capital as a foundational resource, particularly in regions where access to financing remains a critical challenge for SMEs.

The study's main contribution lies in advancing SME financial research by showing how knowledge, managerial routines, and resources interact to generate outcomes. The CFE model (Capital Adequacy, Financial Management Practices, and Entrepreneurial Orientation) provides an integrated framework that future studies can further test and refine, particularly in contexts with differing economic and institutional environments.

From a methodological perspective, this study is limited by its cross-sectional design and the use of self-reported data from a single source, which could potentially introduce common method bias. Although Harman's Single Factor Test indicated that common method bias was not a significant concern, future research should consider longitudinal designs and multiple data sources to mitigate such biases and strengthen the validity of findings.

Practically, the findings suggest that capacity-building initiatives must go beyond classroom-based financial literacy training. Programs should prioritize mentoring in financial practices, such as cash flow management and working capital planning, strengthen entrepreneurial orientation, and expand access to affordable working capital. Furthermore, ensuring that these initiatives are aligned with the local context, where informal business management structures are prevalent, is essential for improving the effectiveness of such programs.

Future research should adopt longitudinal approaches and explore additional contextual variables, such as digital transformation and policy support, to improve the explanatory power of the model. Specifically, it would be beneficial to examine sector-specific differences by comparing manufacturing SMEs with service-based SMEs, or to explore urban versus rural SMEs to determine how these factors influence the relationship between financial literacy, financial management practices, and performance.

Regarding the generalizability of these findings, the study is limited to SMEs in West Nusa Tenggara, which has its unique economic and social context. Therefore, while the findings are relevant for similar regions in Indonesia or developing countries, caution should be exercised when generalizing them to other regions or more developed economies. Future studies should explore whether the model holds in different geographic and institutional settings, particularly in urban areas with greater access to resources and digital technologies.

This study underscores the critical role of financial literacy and entrepreneurial orientation in shaping SME performance, but emphasizes that knowledge alone is insufficient without structured financial management practices and adequate capital. For academics, this research offers a valuable framework for further exploring how intangible resources (like financial knowledge) interact with tangible resources (such as capital) to influence financial outcomes in SMEs. For practitioners, the

findings call for holistic capacity-building programs that go beyond theoretical literacy, integrating practical mentoring in financial management and fostering entrepreneurial skills. Only by addressing both the knowledge and the practical skills can SMEs unlock their full potential and contribute to sustainable economic growth.

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