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Nexus of Financial Culture and MSMEs Competitiveness

Baiq Nurul Suryawati*, Nurhayati, Hadi Paramu, Elok Sri Utami

Department of Management-Faculty of Economics and Business, University of Jember (UNEJ), Jember, Indonesia. *Corresponding Author's Email: 210830201007@mail.unej.ac.id

Abstract

Financial management presents a persistent challenge for micro, small, and medium enterprises (MSMEs), particularly in developing regions where many business owners rely on intuition and informal practices. This study examines the mediating role of working capital financial culture management (WCFCM) in the relationship between financial literacy, entrepreneurial orientation, and financial competitiveness among MSME owners. Drawing from the resource-based view (RBV) and cultural finance perspectives, this research integrates behavioural, strategic, and cultural dimensions into the analysis of financial decision-making. The study adopts a quantitative approach using survey data collected from 230 MSME owners in Indonesia. The questionnaire was adapted from validated instruments and modified to reflect local financial practices. Data analysis was performed using Structural Equation Modelling–Partial Least Squares (SEM-PLS) and Hayes' PROCESS to test both direct and mediated effects. The results indicate that financial literacy and entrepreneurial orientation positively influence financial competitiveness, and that working capital financial culture management significantly mediates these relationships. The findings highlight that financial management among MSME owners is not solely driven by rational calculations or instinctive decisions, but also deeply rooted in cultural values and local wisdom. Specifically, principles such as frugality, cooperation, and resource preservation influence how working capital is structured and utilized. These insights underscore the need to recognize culturally embedded behaviours in designing financial education and support programs. By acknowledging the behavioural and cultural foundations of financial decision-making, this study contributes to a more contextually grounded understanding of MSME competitiveness and offers implications for policy and practice in similar socio-economic environments.

Keywords: Competitiveness, Cultural Finance, Financial Management, Local Wisdom, MSMEs, Working Capital.

Introduction

Small businesses are crucial for economic development, especially in developing countries, and drive job creation, innovation, and diversification (1). They faced challenges in financial management and working capital efficiency, which are critical to their survival and growth (2). Effective working capital management ensures liquidity and profitability by managing short-term resources (3). Small businesses often struggle with working capital management because of limited financial access, low financial literacy, and cultural factors. Effective working capital management, including managing cash flows, inventory, and receivables, is vital for small businesses' success, particularly in emerging markets (4). Financially literate small business owners are better at implementing management control systems, enhancing innovation, and mitigating risks (5). Improving small business owners' financial literacy leads to better innovation outcomes. In regions with low financial literacy, the challenges of working capital management are more significant. Financial literacy and innovation and human capital enhance small businesses' performance (6). Improving financial education for small business owners is essential, especially where formal financial services are rare, to help them make informed working capital decisions and remain competitive (7). In addition to financial literacy, the cultural context shapes working capital management in regions such as NTB, Indonesia, where local financial practices and attitudes toward debt influence how small business owners manage their capital. Many small business owners in NTB need more formal financial services due to concerns over debt, limiting their access to credit for business expansion. This cultural reluctance hinders efficient financial management, as many rely on informal financing that lacks stability for long-term growth (8). Small businesses also need help with unstructured working capital

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management, where capital is often used for personal expenses instead of business growth (9), which impacts the sustainability of the business in the midst of intense market competition (10). MSMEs in the agriculture and food production sectors, in particular, need help with low prices and dependence on intermediaries. To overcome these challenges, MSME owners must implement more structured working capital management practices and improve their financial management (11). The vulnerability of small businesses in Indonesia, revealed by pandemic-era closures, is rooted in a fundamental challenge: a lack of interest in business development and an ecosystem that often forces them into a survival mindset rather than enabling growth (12). Although support mechanisms like government-led e-commerce platforms help enhance SME visibility, achieving sustainable business models necessitates that entrepreneurs develop self-reliant financial planning (13). A research discover a positive correlation between entrepreneurial competence and MSME market share (14). Financial culture in this research primarily refers to the shared values, attitudes, and practices that influence financial behaviour and decision-making among small business owners. It is not limited to institutional financial processes, but rather captures how individuals and communities perceive and interact with financial systems. In conservative regions, cultural reluctance to engage with formal financial institutions often leads to inefficiencies and restricts opportunities for growth and innovation (15). Thus, financial culture intersects with financial literacy and attitudes toward decision-making: a lack of literacy and negative attitudes toward formal finance hinder optimal working capital management. Addressing these cultural barriers through education and support programs can enhance financial resilience (16). By integrating financial literacy into small business management, entrepreneurs can strengthen competitiveness and improve working capital outcomes (14, 17). Effective working capital management that closely tied to how financial culture shapes everyday financial decisions will supports cash flow stability, enables investments, and sustains innovation (18, 19). Hence, financial culture should be understood as a behavioural and attitudinal framework that mediates the link between financial literacy and financial competitiveness by shaping daily working capital management decisions, rather than as a purely institutional construct, in line with the resource-based view (RBV) and cultural finance, which emphasize how context-specific financial culture functions as a capability for sustaining competitive advantage. Furthermore, improving financial literacy among small business owners is vital for managing risks and optimizing operations (5). Addressing the cultural factors that influence financial decisions, particularly in regions such as Indonesia, is crucial for fostering the growth and long-term success of small businesses (20). Firms achieve a competitive edge by leveraging valuable, rare, inimitable, and non-substitutable resources, as posited by the resource-based view (RBV) (21). For small businesses with constrained access to external financing, internal resources such as working capital, financial literacy, and cultural orientation become central to performance. Effective working capital management (WCM) as the coordination of current assets and liabilities, is not merely operational but strategic, influencing liquidity, profitability, and long-term sustainability (22). As such, WCM forms a bridge between financial capabilities and competitive outcomes. Cultural dimensions further enrich this perspective. Financial decisions are shaped not only by economic rationale but also by cultural norms (23, 24). For instance, collectivist societies tend to favour internal cash flow over external debt, whereas individualistic cultures pursue more aggressive financial strategies (20). These culturally embedded behaviours necessitate the inclusion of local values into financial management frameworks, especially within the heterogeneous context of small enterprises. Integrating RBV, WCM, and cultural finance creates a comprehensive lens through which businesses can align internal resources with cultural norms to enhance financial competitiveness. Empirical studies of financial competitiveness adopt diverse approaches across regions and industries. The predictive capacity of financial ratios for small business success in Romania (25), another study also emphasised the importance of the cash conversion cycle in the dairy sector (26). Broader studies reinforce that liquidity, leverage, and efficiency remain critical, particularly within emerging markets (27). However, there are also

different types of intellectual capital (e.g., innovation and relational capital) that impact financial competitiveness in nonlinear ways (28). Meanwhile, research also shows business networks and entrepreneurial orientation play vital roles in enhancing performance under structural constraints (29). These insights converge on the conclusion that internal financial governance which combined with entrepreneurial learning and culturally embedded practices that serves as a foundational pillar for sustainable competitiveness. Small businesses, especially in post-crisis or resource-scarce contexts, face intensified working capital constraints. An integrated decision-support systems can enhance coordination across business functions, but these systems must be tailored to small enterprise dynamics (30, 31). Subsequent researches confirms that firms with stronger WCM achieve higher market value and operational stability (32, 33). However, smaller firms remain more vulnerable to underinvestment, though they adapt more flexibly (34). Recent post-pandemic evidence from Finland reinforces that cash flow issues remain a persistent threat due to payment delays and weak receivables management, validating the urgency for dynamic and responsive WCM strategies (35). Alongside financial systems, the socio-cultural environment plays a crucial role. In Indonesia traditional Minangkabau values inform financial and human resource decisions, it also linked local wisdom with modern entrepreneurial practices in creative industries (36, 37). Resource endowments also interact with cultural orientations to either hinder or promote financial development (20). More recent ethnographic insights from indigenous contexts such as the Sasak of NTB suggest that religious and customary leadership play an evolving role in shaping financial behaviour (38, 39). Cultural competence becomes an essential asset for small enterprises navigating both modern financial demands and traditional values (40). Incorporating this understanding, five Sasaknese principles which are 'Itiq' (frugality), 'Penunah' (resource appreciation), 'Semaik-maik' (austerity), 'Genem' (endeavour), and 'Saling Peliwat' (cooperation) offer a culturally embedded framework for enhancing financial culture in working capital decisions (41). These principles align with core financial management objectives: prudent spending, internal resource maximization, cost efficiency, long-term planning, and risk-sharing, as all of which directly reinforce the pillars of competitive financial strategy. Entrepreneurial orientation (EO), understood as a firm's proactive and risk-taking posture, further strengthens this link. There is association between EO and performance, particularly under resource constraints (42, 43). Innovation mediates this relationship, independent of environmental dynamism (44). Other studies highlight how institutional environments and entrepreneurial passion shape EO and firm outcomes (45, 46). Within Indonesia, a research identify EO traits such as innovativeness, autonomy, and ambiguity tolerance as predictors of entrepreneurial success in small construction firms (47). Parallel to EO, financial literacy serves as a foundational skill set. A critical reflection on cultural and socioeconomic conditions enables more informed financial decisions in Aboriginal communities (48). Financial literacy encompasses not only awareness and skills, but also attitudes that shape behaviour, influencing compulsive buying, risk-taking, and investment strategies (49). In Brunei, a disparities in financial preparedness, even between welfare and non-welfare groups, underlining the need for targeted education programs (50). We clarify that our emphasis on financial culture goes beyond institutional processes or generic behavioural finance by focusing on the values, attitudes, and practices that shape how MSME owners perceive and act on financial choices. This perspective highlights that in developing nations, financial outcomes are not only determined by literacy or access to finance but also by culturally embedded norms governing risk preferences, debt aversion, and trust in institutions. By framing financial culture as both a mediating framework and a strategic resource that rooted in local wisdom such as the Sasaknese principles of frugality, resource appreciation, austerity, endeavour, and cooperation our study will contributes to a context-sensitive model of MSME competitiveness. This sharpens the literature by showing that culture itself functions as a resource that strengthens resilience and sustainability under structural constraints. This integrated model as illustrated in figure 1 underpins the present study's hypotheses, which explore direct and mediating relationships among financial literacy,

EO, WCFCM, and financial competitiveness that placing cultural values at the core of sustainable enterprise development.

Firms gain advantage when they orchestrate resources through firm-specific capabilities, as argued by the resource-based view (RBV). In small businesses facing external financing constraints, working capital, financial literacy (human capital), and cultural orientation (social or normative capital) are critical inputs, but the working capital management (WCM) capability as it the historically shaped, tacit routines that coordinate cash, receivables, payables, and inventory could be used to converts those inputs into liquidity, profitability, and survival advantages. While working capital as a resource is widely available, WCM as a capability can be valuable, difficult to imitate, and context-specific, thereby satisfying RBV's VRIN logic when embedded in local routines. Finance culture refines this picture by specifying mechanisms: cultural norms shape risk tolerance, time preferences, and trust, which in turn influence financing choices (e.g., reliance on internal cash flow vs. external debt) and concrete WCM policies (precautionary cash buffers, trade credit practices, inventory posture).

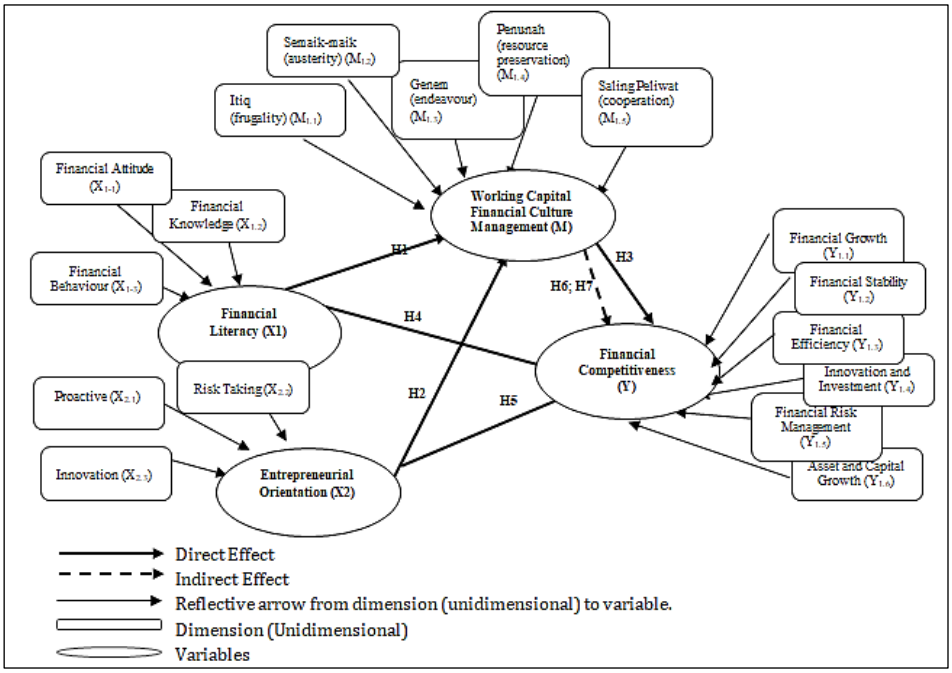

Figure 1: Conceptual Framework

In more collectivist or conservative settings, firms typically favour internally generated funds and conservative WCM, whereas individualistic settings more readily adopt leverage and aggressive CCC reduction. These culturally embedded behaviours are contingent on institutional quality and market volatility, implying that WCM mediates the effect of financial literacy and culture on competitive outcomes, with culture also mediating how literacy translates into capability. Integrating RBV with cultural finance thus yields a coherent framework: financial literacy and cultural orientation (resources) feed into WCM (capability), which orchestrates current assets and liabilities into superior cash conversion and risk management, thereby enhancing financial competitiveness. This theoretical structure improves rigor by clarifying roles (resources vs. capabilities), specifying mechanisms (culture integrate with financing preferences which are WCM policies to increase performance), and stating boundary conditions (such as credit frictions, informality, and volatility). On this basis, the following hypotheses are tested comprised of: **H1**: Financial literacy has impacts on working capital financial culture management; **H2**: Entrepreneurial orientation has impacts on working capital financial culture management; **H3**: Working capital financial culture management has impacts on financial competitiveness; **H4**: Financial literacy has impacts on financial competitiveness; **H5**: Entrepreneurial orientation has impacts on financial competitiveness; **H6**: Working capital financial culture management mediates the relationship between financial literacy and financial competitiveness; **H7**:

Working capital financial culture management mediates the relationship between entrepreneurial orientation and financial competitiveness.

Methodology

This study uses an explanatory research design with a quantitative approach to explore the connections between financial literacy, entrepreneurial orientation, working capital financial culture management, and financial competitiveness in MSMEs in NTB. The explanatory research design is chosen to understand and develop cause–and–effect relationships between these variables. The quantitative approach allows the testing of a conceptual model developed on the basis of theoretical foundations and prior empirical research. The cross-sectional design of the study involves observing phenomena in a single region at a specific point in time. This provides insight into the current dynamics of MSMEs regarding financial and entrepreneurial behaviour. The research aims to examine how financial literacy and entrepreneurial orientation directly and indirectly affect financial competitiveness. This is accomplished by considering working capital financial culture management as a mediating variable. By translating research concepts into measurable tools, this study aims to gain a deeper understanding of how MSME owners in the NTB handle their working capital within the framework of financial culture and how this management impacts their overall financial competitiveness. The objective of this study is twofold: first, to enhance the academic understanding of the subject, and second, to provide practical strategies that will allow for the enhancement of the performance of MSMEs in competitive markets. This study utilizes SEM-PLS method and Hayes PROCESS to test hypotheses and analyse the relationships between variables. SEM-PLS is a robust tool for handling complex models involving reflective, formative, and mediating latent variables. The analysis is conducted in two main stages: the measurement model (outer model) and the structural model (inner model). The outer model focuses on the relationship between latent variables and their indicators, assessing the validity and reliability of the constructs. In contrast, the inner model evaluates the structural relationships between the latent variables. SEM-PLS allows for testing mediation effects via a step-by-step approach, including tests of direct and indirect effects between the exogenous, mediating, and endogenous variables. The operational definitions of the variables in this research are adapted and modified on the basis of previously established scales. Financial literacy was initially defined through attitudes, knowledge, and behaviour, but only attitudes and behaviour satisfied the reliability and validity thresholds and were retained in the SEM-PLS model. The operationalization of the key constructs was finalized after empirical testing. The construct of entrepreneurial orientation was reduced from three dimensions (proactivity, risk-taking, innovation) to two, retaining only proactivity and innovation. WCFCM, grounded in five principles (frugality, austerity, endeavour, prosperity, cooperation), was measured through three: austerity, endeavour, and prosperity. Furthermore, the conceptualization of financial competitiveness across six dimensions (growth, stability, efficiency, innovation and investment, risk management, and asset and capital growth) was measured using five, as the risk management dimension was omitted due to its indicators not passing the established thresholds (51). The data for this research were collected through questionnaires with closed-ended interval scales to capture various variables. The questions were divided into two sections. First, respondent profile information, such as name, gender, age, education, years of operation, employees, assets, business location, main product categorization, and business origin, was gathered. The second part addressed variables such as financial literacy, entrepreneurial orientation, WCFCM, and financial competitiveness. The SEM–PLS method, as implemented via SmartPLS, was utilised to investigate the direct and indirect relationships between financial literacy, working capital, financial culture management, and financial competitiveness in MSMEs in NTB. The study population consisted of 773 MSMEs recorded in the BP3UD database, which includes both enterprises affiliated with the NTB Mall and those operating independently. A multistage sampling strategy was employed to ensure representation across regions and business types. In the first stage, MSMEs were stratified into two groups: (1)

NTB Mall members, considered as leading enterprises with high development potential, and (2) MSMEs in Mataram city that were listed in the BP3UD database but not yet affiliated with NTB Mall. In the second stage, respondents were selected randomly within these groups to maintain equal opportunity of participation. This procedure balanced representativeness across geographic areas and institutional affiliations, while reducing potential sampling bias. In practice, 407 MSMEs were approached between March and August 2024. Due to non-participation, business closures, and incomplete data, only 238 responses were collected, of which 230 were retained after data cleaning to remove duplicates and invalid cases. The final sample represented enterprises from key industries which are food and beverages (47.83%), handicrafts (18.27%), fashion (15.65%), and accessories (14.78%) with most classified as micro-scale, employing 1–4 workers and holding assets below IDR 500 million. The final sample offers a representative cross-section of NTB MSMEs, covering rural and urban enterprises and those linked to regional development initiatives through the NTB Mall. Women comprised 66.96% of respondents, underscoring their central role in microenterprise development, while most owners were over 30 years old and had at least a high school education, indicating sufficient capacity for financial decision-making. The majority operated in Mataram (64.78%), had run their businesses for more than five years, and were pioneers of their ventures, reflecting resilience and entrepreneurial initiative. In terms of scale, most were classified as micro enterprises, employing 1–4 workers and holding assets below IDR 500 million, with food and beverages as the dominant sector (47.83%) followed by handicrafts, fashion, and accessories.

Results

Before proceeding to subsequent analyses, it is essential to ensure the reliability of the research instrument. In this study, reliability was assessed using Cronbach's Alpha, with SPSS employed to evaluate the internal consistency of the questionnaire items. Reliability refers to the extent to which a measurement instrument consistently and accurately captures the intended construct. A reliable instrument yields results that remain stable across different samples and conditions, with responses tending to converge around the sample mean. The results of the reliability analysis are presented in Table 1. The calculated Cronbach's Alpha value is 0.836, which exceeds the commonly accepted threshold of 0.80, indicating that the instrument demonstrates strong internal consistency and is suitable for further analysis.

Table 1: Reliability Test

Reliability Statistics	
Cronbach's Alpha	N of Items
0.836	56

Subsequent to the reliability testing, indicators that satisfied the reliability criteria were subjected to SEM-PLS in order to ascertain which indicators contribute to the formation of latent variables for the independent, mediating, and dependent constructs. The next step involved verifying the results based on SmartPLS output. While the introduction outlined multiple theoretical dimensions of financial literacy, entrepreneurial orientation, working capital financial culture management (WCFCM), and financial competitiveness, not all were retained in the empirical testing. The refinement process followed reliability (Cronbach's Alpha) and validity testing (outer loadings, AVE, CR) using SmartPLS. Indicators that failed to meet thresholds or showed weak contextual relevance were eliminated. For instance, several knowledge-based items of financial literacy (e.g., taxation and discount comprehension) were dropped, as they showed low factor loadings and limited applicability to MSME decision-making in NTB. In WCFCM, indicators related to debt and receivable management were excluded because many MSMEs rarely used formal credit, leading to insufficient variance. Likewise, financial competitiveness indicators based on leverage (debt-to-equity ratios) were removed, as most MSMEs relied on internal funds. Only valid and contextually robust indicators were retained, ensuring that the SEM-PLS model reflected constructs that were both theoretically grounded and empirically meaningful. As shown in Table 2, indicators that did not meet the validity and reliability thresholds

were systematically removed until all constructs demonstrated acceptable values specifically, AVE > 0.50 and composite reliability > 0.60 ensuring the robustness of the measurement model. Convergent validity was assessed to confirm the construct validity of the model, which refers to the extent to which a set of indicators accurately reflects the underlying theoretical construct. This was evaluated using the criteria of AVE and Composite Reliability (CR). The results revealed statistically acceptable values, with all factor loadings exceeding 0.60, CR values surpassing 0.70, and AVE values above 0.50. Specifically, as presented in Table 2, AVE values ranged from 0.508 to 0.580, while CR values ranged from 0.804 to 0.894, indicating that the measurement model meets the required standards of validity and reliability.

Table 2: Convergent Validity

	Factor Loadings	**Composite Reliability**	**Average Variance Extracted (AVE)**
X1.1.2	0.668		
X1.1.3	0.846	0.804	0.580
X1.3.2	0.760		
X2.1.1	0.710		
X2.1.2	0.814		
X2.1.3	0.718	0.860	0.508
X2.1.4	0.732		
X2.3.1	0.652		
X2.3.4	0.637		
M1.2.2	0.810		
M1.3.2	0.778	0.829	0.552
M1.4.1	0.776		
M1.4.3	0.587		
Y1.1.1	0.716		
Y1.1.2	0.639		
Y1.2.2	0.809		
Y1.3.1	0.608	0.894	0.516
Y1.4.1	0.613		
Y1.4.2	0.820		
Y1.6.1	0.673		
Y1.6.2	0.825		

Furthermore, the discriminant validity test aims to ensure that the correlation between a construct and its measuring item is greater than its correlation with other constructs. This result is shown in the table 3 through the Fornell–Larcker criterion value, where the square root of the AVE of each construct is more significant than its correlation with other constructs in the model. Thus, the construct has good discriminant validity.

Table 3: Fornell–Larcker Criterion

	Financial Literacy (FL)	**Entrepreneurial Orientation (EO)**	**Working Capital Financial Culture Management (WCFCM)**	**Financial Competitiveness (FC)**
Financial Literacy (FL)	0.762			
Entrepreneurial Orientation (EO)	0.238	0.713		
Working Capital Financial Culture Management (WCFCM)	0.287	0.553	0.743	

Financial Competitiveness (FC)	0.461	0.385	0.408	0.718

The structural model as depicting the interdependence of associations within the proposed framework (52). In partial least squares (PLS), the structural model focuses on the directional connections between constructs, their t values, and path coefficients, which are similar to standardized beta coefficients in regression analysis. The main purpose of the structural model is to examine the proposed relationships between the constructs. The study initially assessed the model and then checked the assumptions related to the regression and correlation of the variables. The assessment then proceeded with the examination of direct relationships, testing five hypotheses involving direct effects and two hypotheses involving indirect effects through mediation variables as illustrated in figure 2. Furthermore, the calculation results displaying the direct, indirect, and total effect values are presented in the table 4 consecutively.

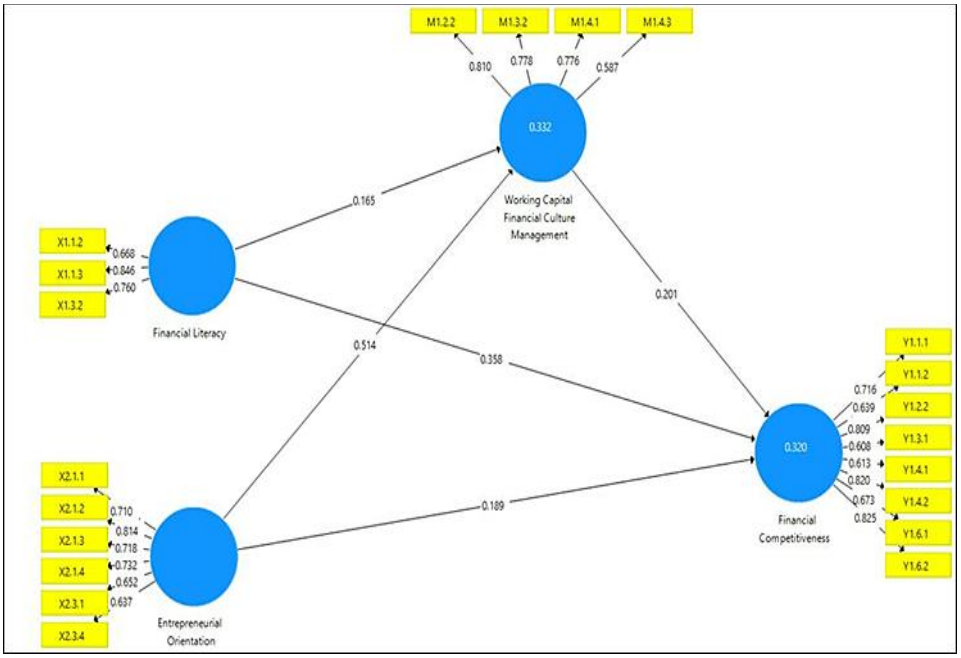

Figure 2: Calculation of the PLS Algorithm

Table 4: Direct and Indirect Effect Values

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values	Decision
Financial Literacy → Working Capital Financial Culture Management	0.165	0.166	0.054	3.066	0.002	H_1 Supported
Entrepreneurial Orientation → Working Capital Financial Culture Management	0.514	0.519	0.057	9.005	0.000	H_2 Supported
Working Capital Financial Culture Management →	0.201	0.204	0.069	2.925	0.004	H_3 Supported

Financial Competitiveness						
Financial Literacy → Financial Competitiveness	0.358	0.362	0.056	6.434	0.000	H_4 Supported
Entrepreneurial Orientation → Financial Competitiveness	0.189	0.191	0.073	2.587	0.010	H_5 Supported
Financial Literacy → Working Capital Financial Culture Management → Financial Competitiveness	0.033	0.033	0.016	2.128	0.034	H_6 Supported
Entrepreneurial Orientation →Working Capital Financial Culture Management → Financial Competitiveness	0.103	0.106	0.038	2.693	0.007	H_7 Supported

The next stage of analysis applies the valid indicators that define each latent variable, followed by the classification of respondents into three levels: Low, Moderate, and High based on their total scores for each construct. This classification is derived by calculating the range between the highest and lowest possible scores and dividing the range into three equal intervals. This method provides a meaningful way to group respondents according to their relative position within the score distribution. As shown in Table 5, the categorization reveals the distribution across each variable. For Financial Literacy, most respondents fall into the Low category (59%), with scores ranging from 3 to 9, while only 7% are in the High category (16–22). Entrepreneurial Orientation shows a stronger concentration in the High category (73%, scores 22–30), indicating a generally proactive and opportunity-seeking respondent group. In terms of WCFCM, 64% of respondents scored in the High category (15–20), suggesting strong cultural alignment in capital management practices. Meanwhile, Financial Competitiveness shows a different trend, with 56% of respondents in the Low category (scores 8–19), and only 2% achieving High competitiveness (31–42). These distributions highlight varying levels of capability and behaviour across constructs, with entrepreneurial orientation and working capital financial culture management being relatively stronger than financial literacy and competitiveness.

Table 5: Scoring Dan Levelling of Respondents

Variable	Category	Score Interval	Frequency	Percentage
Financial Literacy	Low	3 -9	136	59
	Moderate	10 -15	79	34
	High	16 -22	15	7
Entrepreneurial Orientation	Low	6 - 14	4	2
	Moderate	15 – 21	59	26
	High	22 - 30	167	73
	Low	4-9	17	7
	Moderate	10-14	65	28

Working Capital Financial Culture Management	High	15-20	148	64
Financial Competitiveness	Low	8-19	129	56
	Moderate	20-30	96	42
	High	31-42	5	2

Table 6 summarizes the results obtained using Hayes' PROCESS procedure in SPSS to analyse mediation involving multiple independent variables (53). This step examines the indirect effects of financial literacy and entrepreneurial orientation on financial competitiveness, mediated by WCFCM. The objective of the analysis is to ascertain whether the mediating variable exerts a substantial influence on the independent variables in relation to the dependent variable. This will facilitate a more profound comprehension of the structural pathways that underpin the financial competitiveness of MSMEs.

Table 6: Mediation Analysis Results by Hayes PROCESS

	Direct	**Indirect**	**BootLLCI**	**BootULCI**	**Total Effect**	**Decision**
Financial Literacy → Working Capital Financial Culture Management → Financial Competitiveness	0.5222	0.0416	0.0066	0.0892	0.5638	H_6 Supported
Entrepreneurial Orientation → Working Capital Financial Culture Management → Financial Competitiveness	0.2049	0.1158	0.0345	0.2115	0.3207	H_7 Supported

The Hayes process calculation shows that in the Financial Literacy → WCFCM → Financial Competitiveness model, the indirect effect is 0.0416 with no zero include in BootLLCI and BootULCI, indicating that there is mediation between Financial Literacy and Financial Competitiveness through Working Capital Financial Culture Management. In the Entrepreneurial Orientation → WCFCM → Financial Competitiveness model, the indirect effect is 0.1158 with no zero include in BootLLC and BootULC, indicating that there is mediation in this relationship. This result is consistent with past studies (52, 55). The study's findings indicate that financial literacy has a significant direct effect on financial competitiveness, but this relationship is also mediated by WCFCM. This suggests that financial literacy alone is not sufficient to translate into competitiveness; rather, it must be operationalized through effective and culturally embedded working capital management. Although moderators such as financial availability, regulatory assistance, or digital adoption were not tested in this study, the results highlight that WCFCM already functions as a key mechanism shaping the literacy and competitiveness link. In contexts where access to external finance is limited, as is the case for most NTB MSMEs, internal capabilities particularly literacy applied to working capital practices and it serves as the primary pathway to competitiveness.

Discussion

Financial literacy can reduce the risk of unwise financial behaviour, such as compulsive buying, as well as help individuals to better plan financially for the future (49). This finding suggests that respondents' low financial literacy is a factor in their lack of long-term investment. The application of a dynamic financial literacy model can strengthen individuals' financial behaviour, allowing them to better balance their short-term and long-term needs (41). Higher levels of financial literacy also promote independence in financial decision making, while reducing reliance on financial advisors (56). Superior financial literacy equips entrepreneurs with the confidence to make autonomous financial decisions, fostering a more efficient balance between operational liabilities (inventory and debt) and growth-oriented activities (investment and savings). Within the scope of MSME performance, the consistent

practice of financial record-keeping emerges as a crucial factor for managing working capital and sustaining long-term business development (57). Proper record keeping enables businesses to better monitor cash flow and identify more profitable investment opportunities. By increasing awareness of keeping detailed financial records, business owners can manage working capital more efficiently and improve the competitiveness of their business. Furthermore, a poor working capital management can have a negative impact on business growth and sustainability (58). Therefore, financial literacy that focuses on working capital planning, including investment and savings, is essential to improve the effectiveness of working capital financial culture management and business competitiveness in both the short and long term. Entrepreneurial orientation supported by business networks contributes to improving business performance and family welfare (29). This is in line with the influence of entrepreneurial orientation in this study on the implementation of working capital financial culture management, especially in terms of fund allocation and inventory management. Meanwhile, risk-taking in entrepreneurial orientation can increase business risk, but the risk can be minimised through innovation (59). Sound market and financial planning, as well as an experienced management team, are often more important in ensuring business success than simply relying on innovation. It should also be supported by business experience and skills that provide a stronger basis for long-term success (60–63). Therefore, while these findings support the importance of entrepreneurial orientation to the implementation of working capital financial culture management, its implementation should be tailored to the conditions of the firm and its owners. Other more specific indicators, such as evidence of fund allocation and records of receivables, are also needed to ensure the implementation of working capital financial culture management. Good inventory management practices have a significant impact on competitive advantage and organisational performance (64). This finding is consistent with the results of the present study, which demonstrate that structured WCFCM plays a role in maintaining the liquidity and financial stability of the company. However, the application of this principle cannot be implemented in a uniform manner across all sectors, due to differences in cost structures and market dynamics. For instance, the handicraft sector is characterised by a high degree of capital intensity and facilitates the export of goods, necessitating substantial financial resources to underpin inventory levels. Conversely, food and beverage companies typically exhibit higher inventory turnover rates, which underscores the importance of precise forecasting and sales management. As companies operating within the jewellery sector, which source goods directly from producers, it possesses minimal inventories due to their emphasis on marketing and branding. It is imperative that a profound comprehension of business characteristics is attained in order to ensure the efficacy of the WCFCM in enhancing financial competitiveness. In addition that the competitiveness of companies is not only influenced by operational efficiency (65), but also by more complex institutional, policy and business environment factors. The long-term competitiveness of firms is related to their ability to innovate and adapt to dynamic market demands (65). In the context of this study, disciplined WCFCM includes not only inventory and cost management, but also debt monitoring. Good debt management enables firms to maintain healthy cash flows, which allows them to invest in productive assets and expand their operations. Effective implementation of the WCFCM requires adjustments in various situations, particularly in relation to increasing investment and adding assets, where the research results show a low response to this indicator. The results of this study are also consistent with the findings that financial literacy plays an important role in improving the competitiveness of micro, small and medium enterprises (MSMEs), especially when moderated by capital structure (66). Financial literacy contributes to rational financial decision making and risk management, which in turn affects the competitiveness of MSMEs. It also found a positive relationship between financial literacy and MSME business sustainability, where a better understanding of capital management and investment plays a role in strengthening competitiveness and business sustainability (67). The study also confirmed a significant influence between low financial literacy and low to moderate financial competitiveness. This suggests that

improving financial literacy can have a positive impact on MSMEs' financial competitiveness. An improved financial literacy helps MSME owners make more strategic decisions about investments, manage risks more effectively, and adapt to market changes (66, 67). This finding is also supported the importance of government support in providing business knowledge and finance to strengthen the competitiveness of MSMEs (68). The findings indicate that the risk-taking dimension of Entrepreneurial Orientation (EO) can enhance a firm's profitability (51). While entrepreneurial orientation has a positive impact on MSMEs' financial performance, it still needs to be supported by good risk management to achieve financial competitiveness. A business owners who have good financial literacy are better able to make the right financial decisions, take risks and manage investments effectively (5). The existence of strong financial literacy makes business owners better equipped to implement a better financial management system to increase financial excellence. However, in this study, the respondents' low financial literacy limited their ability to make risky decisions and hindered their financial competitiveness. The t-test results show a significant effect, as the overall results of this study remain in line with the research as it emphasises the importance of financial literacy in supporting more strategic and risky financial management (5). In addition, it also shown that a firm's ability to manage cash flow and make long-term investments contributes significantly to its competitiveness (18). In line with this, the WCFCM suggests that it can help entrepreneurs to improve the financial stability of the company through good cash flow management. Aligning inventories with budgets, having funds available to adjust needs, aligning expenses with budgets and monitoring maturing debt will all contribute to improving financial performance. Effective working capital management plays a crucial role in improving a firm's financial performance. By actively managing receivables, payables, and inventories, entrepreneurs can ensure liquidity, mitigate financial constraints, and directly contribute to the company's profitability and overall financial stability (51). With WCFCM in place, SMEs can manage financial resources to support growth and financial stability. Efficient cash, receivables and inventory management has a significant impact on the financial performance and competitiveness of SMEs (69). The study supports the role of WCFCM as a mediator between entrepreneurial orientation and financial competitiveness. The importance of financial innovation in improving the competitiveness of SMEs, the integration of local wisdom in working capital management allows SMEs to be more flexible in facing financial challenges and adapting financial strategies to market dynamics (70). Therefore, the focuses on competition as a strategic effort to generate profits and improve market position can help MSMEs to take strategic steps through the application of WCFCM (71). The findings of this study on the role of financial literacy and working capital financial culture management (WCFCM) in shaping competitiveness resonate beyond the Indonesian context. Taken together, our findings align with patterns observed across robust MSME ecosystems. In Southeast Asia, higher financial literacy consistently enables owners to balance inventory, debt, and investment choices, improving resilience and competitiveness that precisely the channel we model through WCFCM, where literacy informs day-to-day cash, receivables, and inventory routines (65, 66). In Sub-Saharan Africa, weak record-keeping and constrained finance often depress growth; targeted literacy interventions that formalize bookkeeping and budgeting improve cash-flow visibility and risk control, echoing our result that disciplined WCFCM (recording, planning, and monitoring) mediates the path from literacy to competitiveness under financing frictions (67). In Eastern Europe, sectoral evidence particularly in dairy and manufacturing shows that disciplined working-capital policies (e.g., tighter cash-conversion cycles and payables/receivables coordination) translate directly into profitability and survival, mirroring the WCFCM-to-competitiveness linkage we document (26, 27). Across these regions, common constraints (low literacy, limited external finance, and volatile demand) amplify the value of capability-based governance: when financial culture shapes routine working-capital decisions, firms better align inventories with budgets, maintain precautionary liquidity, and time investments more effectively, yielding gains in stability, efficiency, and growth (63, 70). The NTB case thus contributes to a broader emerging-market narrative:

strengthening financial literacy and embedding it in financial culture–driven working capital management is a scalable pathway to financial competitiveness across heterogeneous institutional contexts (65–67).

Conclusion

This study finds that financial literacy and entrepreneurial orientation enhance MSME competitiveness in NTB, with Working Capital Financial Culture Management (WCFCM) mediating their influence by translating knowledge and orientation into effective financial practices. While WCFCM improves growth, stability, efficiency, and innovation, low financial literacy among respondents constrains competitiveness. The study is limited by its cross-sectional design, the elimination of some theoretical indicators due to weak contextual relevance, its focus on a single province, and the exclusion of potential moderators such as financial access, regulatory assistance, or digital adoption. Future research should adopt longitudinal or comparative designs across regions, integrate moderators like digital adoption and policy support, and employ mixed methods to capture cultural routines, thereby strengthening the global and theoretical relevance of financial culture in MSME competitiveness.

Abbreviations

BP3UD: Balai Promosi dan Pemasaran Produk Unggulan Daerah (Promotion and Marketing Centre for Regional Superior Products Government-based Unit), CCC: Cash Conversion Cycle, EO: Entrepreneurial Orientation, FC: Financial Competitiveness, FL: Financial Literacy, MSMEs: Micro, Small, and Medium Enterprises, NTB: Nusa Tenggara Barat, SEM-PLS: Structural Equation Modelling–Partial Least Squares, VRIN: Valuable, Rare, Inimitable, Non-substitutable, WCFCM: Working Capital Financial Culture Management, WCM: Working Capital Management.

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Author Contributions

Baiq Nurul Suryawati: first draft of the article, collects data, writes the final article, Nurhayati: validates the final draft of the article, Hadi Paramu: validates the research methodology, preparation of the questionnaires, Elok Sri Utami: validates the data analyses, data interpretation.

Conflict of Interest

The authors have disclosed no conflict of interest.

Declaration of Artificial Intelligence (AI) Assistance

This manuscript was written by the authors without the use of generative AI or AI-assisted technologies. All content is original and has been created by the authors themselves.

Ethics Approval

The written informed consent forms were signed by all the subjects participating in the study.

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