JGGS
Journal of Governance and Global Studies

ISSN: 3109-998X

Vol. 03, No. 01, July 2026, pp. 91-103
Available at https://journals.ubmg.ac.id/index.php/JGGS

The Effect of Financial Literacy and Access to Capital on MSME Performance through Financial Management

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AbBSTRACT

While MSMEs are pivotal to regional economic expansion, their growth is often impeded by poor financial literacy, funding constraints, and suboptimal financial management. This quantitative study investigates the influence of financial literacy and capital access on MSME performance in Gorontalo Province, positioning financial management as a mediating variable. Data from 52 purposively sampled MSME owners were analyzed using SEM-PLS via SmartPLS 4.0. The findings indicate that both financial literacy (βbeta = 0.661, $p < 0.001$) and access to capital (βbeta = 0.296, $p = 0.013$) significantly and positively impact financial management. Consequently, financial management strongly enhances MSME performance (βbeta = 0.711, $p < 0.001$). Interestingly, financial literacy and capital access yield no significant direct effect on performance. Crucially, financial management fully mediates the impact of financial literacy (βbeta = 0.470, $p < 0.001$) and capital access (βbeta = 0.211, $p = 0.040$) on business performance. The novelty of this research underscores financial management as a vital bridging mechanism in Gorontalo, demonstrating that business success relies more heavily on structural budgeting capabilities rather than merely possessing financial knowledge or capital resources.

Keywords: *Financial Literacy, Access to Capital, Financial Management, MSME Performance, SEM-PLS.*

INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) serve as the cornerstone of the national economy, driving economic growth, generating employment opportunities, balancing income distribution, and mitigating poverty. To survive in volatile global markets and keep pace with rapid digital transformation, MSMEs must elevate their performance to sharpen their competitive edge and ensure long-term viability. However, empirical data indicates that a vast majority of these enterprises remain constrained by structural impediments, such as restricted financing options, deficient managerial skills, and substandard financial management—all of which suppress business productivity. Consequently, identifying the core drivers of business performance is vital for constructing targeted strategies aimed at the sustainable recovery and development of the MSME sector (Daud et al., 2023; Wiyana et al., 2023).

Financial literacy stands out as a critical element in upgrading entrepreneurial competence. Rather than just denoting a theoretical familiarity with financial systems and services, financial literacy represents the practical ability to construct budgets, monitor cash flows, direct investments, and mitigate operational risks. Business owners who possess robust financial acumen are generally more adept at optimizing resource allocation to boost market competitiveness. Unfortunately, multiple empirical investigations suggest that the overall financial literacy of MSME operators in Indonesia remains at a moderate-to-low level. This deficit frequently results in disorganized financial practices and a widespread failure to utilize accounting data for strategic decision-making (Daud et al., 2023; Shanti & Mangifera, 2025; Syamsul, 2023).

Parallel to financial intelligence, availability of capital acts as an essential accelerator for business expansion. Unfettered access to formal credit allows business owners to scale up production capacities, enter new markets, pioneer product innovations, and streamline operating efficiencies. Despite proactive government initiatives—such as the People's Business Credit (KUR) program and other institutional credit channels—MSMEs still encounter major roadblocks including complex bureaucratic processes, stringent collateral demands, and information asymmetries regarding financial instruments. Furthermore, contemporary scholarship suggests that merely increasing the availability of capital does not guarantee enhanced performance unless business owners can manage those funds efficiently. Ultimately, the prudent utilization of financial resources dictates business success (Budiasni, 2023; Wiyana et al., 2023).

These compounding issues are clearly mirrored within the MSME landscape of Gorontalo Province. Even though the number of local enterprises expands annually and serves as a major pillar of the regional economy, financial indiscipline remains rampant among business owners. Common problems include conflating personal and business expenditures, neglecting routine bookkeeping, omitting standardized financial statements, and failing to channel credit into productive expansion projects. Previous literature centered on Gorontalo Regency highlights that strong financial literacy correlates positively with disciplined financial administration. This indicates that driving MSME performance in Gorontalo demands a two-pronged strategy: expanding credit avenues must be synchronized with upgrading entrepreneurs' financial management skills so that capital can be utilized productively (Daud et al., 2023; Kau et al., 2023).

While the interplay between financial literacy, credit accessibility, and business outcomes has been extensively investigated, prior studies yield highly fragmented conclusions, leaving a distinct research gap. One line of reasoning contends that financial literacy directly improves business performance by elevating the quality of executive decisions. Conversely, another school of thought argues that this relationship is indirect, requiring the intervention of a mediating factor such as operational financial behavior or structural capability. A similar divergence occurs regarding capital accessibility; while some studies establish that streamlined credit improves performance, others find it counterproductive if the internal framework for fund management is fundamentally flawed. These contradictory results reinforce the need to re-evaluate these dynamics by introducing a logically sound mediating variable (Kurniasari et al., 2025; Ratnawati et al., 2024; Wati et al., 2024).

From a theoretical standpoint, the bulk of existing literature prioritizes the evaluation of direct effects. Research integrating financial management as an intermediary mechanism remains scarce, particularly within developing economic zones like Gorontalo Province. Guided by the Resource-Based View (RBV) framework, an organization's sustainable competitive advantage is not derived simply from owning resources (knowledge and capital), but from its capability to operationalize those resources into valuable functional competencies. This is where the novelty of this study lies. By utilizing financial management as a mediator, this research introduces a holistic analytical model that clarifies exactly how financial knowledge and capital injection are successfully converted into tangible business performance (Hikmah & Khoiri, 2024; Lasut et al., 2025; Ratnawati et al., 2024).

Driven by these empirical realities, the inconsistencies in existing literature, and the scarcity of localized research on financial mediation within Gorontalo, this study examines the direct and indirect consequences of financial literacy and capital access on MSME performance via financial management. Theoretically, this research seeks to expand the academic dialogue surrounding MSME financial behaviors. On a practical level, the findings are intended to offer strategic guideposts for policymakers, banking regulators, and regional agencies in Gorontalo Province to help them develop impactful financial literacy campaigns, tailored credit structures, and structured managerial mentorship to cultivate resilient, sustainable MSMEs (Kurniasari et al., 2025; Lasut et al., 2025; Ratnawati et al., 2024).

LITERATURE REVIEW

Financial Literacy

Financial literacy denotes an entrepreneur's capacity to comprehend, appraise, and execute financial insights and skills to make prudent choices that foster enduring economic stability. In the sphere of Micro, Small, and Medium Enterprises (MSMEs), this attribute transcends an elementary awareness of cash oversight, savings accounts, credit options, investing, and risk exposure. It fundamentally incorporates the aptitude to formulate budgets, maintain rigorous transactional ledgers, oversee cash flows, and effectively deploy diverse financial mechanisms. Accordingly, financial literacy operates as a strategic asset that improves firm governance and sharpens an MSME's competitive advantage. A broad range of empirical research indicates that heightened financial literacy prompts owners to execute more disciplined financial workflows, directly bolstering enterprise durability and expansion (Budiasni, 2023; Ferli, 2023; Shanti & Mangifera, 2025).

From a theoretical standpoint, financial literacy acts as intellectual capital, steering MSME proprietors toward the productive and efficient distribution of economic resources. Viewed through the lens of the Resource-Based View (RBV), financial expertise is categorized as an intangible resource capable of generating a sustainable competitive edge when seamlessly woven into daily operations. Owners with strong financial literacy exhibit stronger proficiencies in fiscal planning, expenditure control, operational performance assessment, and the adoption of financial technology (fintech). Moreover, mastering these elements streamlines an MSME's interface with traditional lending institutions by elevating the borrower’s comprehension of credit processes, risk management strategies, and financial liabilities (Fauzan et al., 2023; Supriadi et al., 2023; Widyaningsih, 2023).

Access to Capital

Access to capital highlights the capacity of business operators to secure the financial backing needed to sustain current operations and fund growth strategies. This funding can flow from structured financial institutions like commercial banking entities and cooperatives, unorganized credit networks, or modern digital alternatives such as fintech ecosystems and peer-to-peer (P2P) lending models. Within the MSME environment, credit availability functions as an indispensable factor of production that governs output volume, market entry, product innovation, and firm resilience. Yet, a vast number of MSMEs remain restricted by traditional bottlenecks, including burdensome administrative protocols, strict collateral parameters, low credit ratings, and asymmetric knowledge regarding commercial lending products. These systemic hurdles frequently compel entrepreneurs to fall back on personal savings, thereby suppressing their capacity for market expansion (Anggara & Purnamawati, 2023; Perlambang et al., 2025; Soebiantoro & Haryanti, 2024).

In theoretical terms, the reach of capital constitutes a financial resource that can augment internal structural capacities provided it is deployed productively. Grounded in the Resource-Based View (RBV), financial capital serves as a strategic asset that empowers a business to build market advantages by investing in revenue-generating assets, digital tools, product diversification, and expanded manufacturing capacity. Nevertheless, multiple empirical studies suggest that a friction-free capital supply does not automatically guarantee a spike in firm performance. The utility of external capital is heavily contingent upon an entrepreneur's skill in managing those funds via precise budgeting, continuous cash flow tracking, and rigorous financial assessments. Merging digital financial inclusion with disciplined internal governance yields a far more potent impact on accelerating MSME trajectories (Dewi & Masdiantini, 2023; Rakkang et al., 2025; Yuliandini et al., 2023).

Financial Management

Financial management signifies an organized sequence of operational procedures focused on the planning, coordinating, executing, and auditing of financial resources to achieve corporate targets efficiently. In MSMEs, this discipline includes budget drafting, day-to-day bookkeeping, cash flow monitoring, standardized financial statements, cost-containment measures, and routine financial reviews. Robust internal management gives owners an authentic diagnostic view of their fiscal health, serving as a reliable foundation for investment strategies, capital sourcing choices, and commercial scaling plans. On the other hand, vulnerabilities in this sector lead to the counterproductive blending of personal and business accounts, disorganized record-keeping, and an inability to accurately measure net profit margins (Astuti & Soleha, 2023; Edwy et al., 2023; Saidi et al., 2024).

When evaluated theoretically, financial management represents the concrete manifestation of managerial competence in maximizing available economic capital. Drawing from the RBV framework, the capacity to oversee financial resources operates as an organizational capability that translates into competitive advantages by driving operational efficiencies and refining executive decision-making. Past empirical literature consistently demonstrates that MSMEs adopting organized ledger systems, consistent accounting habits, and structured accounting software register markedly higher performance metrics. Furthermore, integrating modern digital accounting tools optimizes the transparency, speed, and precision of reporting, making modernized financial administration a vital baseline for expanding firm productivity (Hakim et al., 2023; Hartina et al., 2023; Rochmah et al., 2023).

MSME Performance

MSME performance indicates the efficiency and success with which an enterprise fulfills its strategic and operational milestones across a designated timeframe. This organizational output is typically quantified through metrics such as escalating sales volumes, profit margins, asset accumulation, customer retention, broader market share, and long-term organizational viability. Within management theory, business performance represents more than just financial outcomes; it evaluates an entrepreneur's skill in transforming inputs into value-added outputs. Boosting this performance is the ultimate objective of enterprise management, as it directly impacts the financial well-being of the owner while concurrently anchoring regional and national economic progress (Ernawati et al., 2024; Shanti & Mangifera, 2025; Tubastuvi et al., 2024).

The Resource-Based View (RBV) states that business success rests on a firm's capacity to skillfully utilize its tangible and intangible resources to sustain a market advantage. In the MSME context, the convergence of financial literacy, streamlined capital access, and systematic financial management functions as a core matrix of strategic resources that enhances cost efficiencies and adaptive agility within volatile market ecosystems. Empirical diagnostics show that business operators who coordinate their financial resources effectively, lean into financial technologies, and leverage external capital efficiently secure superior performance results. Consequently, durable enterprise advancement is dictated not merely by the volume of capital a firm controls, but by the strategic capability of management to synchronize and maximize internal corporate resources (Budiasni et al., 2023; Hamzah et al., 2023; Sari & Hadyarti, 2024).

RESEARCH METHOD

This study employed a quantitative approach using an explanatory research design to examine and verify the causal relationships among financial literacy, access to capital, and MSME performance, with financial management serving as a mediating variable. The research was conducted in Gorontalo Province, Indonesia, where the population comprised all Micro, Small, and Medium Enterprises (MSMEs). To meet specific research criteria, respondents were selected using a purposive sampling technique. The inclusion criteria consisted of MSME owners who were actively operating their businesses and voluntarily agreed to participate in the study by completing the research questionnaire. Based on these criteria, a total of 52 respondents were included in the final sample. Primary data were collected through a structured questionnaire employing a five-point Likert scale ranging from 1 (Strongly Disagree) to 5 (Strongly Agree). This quantitative approach was adopted to objectively examine the relationships among the research constructs using numerical data.

Data analysis was performed using the Partial Least Squares Structural Equation Modeling (PLS-SEM) technique implemented through SmartPLS software. This statistical approach was considered appropriate due to its flexibility in analyzing complex structural models, simultaneously estimating mediating effects, and producing robust parameter estimates even when the sample size is relatively small. Following the methodological guidelines proposed by Hair et al. (2022), the data analysis was conducted in two major stages:

1. **Measurement Model Assessment (Outer Model):** This stage involved evaluating convergent validity, discriminant validity, and construct reliability to ensure that the measurement instruments were valid and reliable.
2. **Structural Model Assessment (Inner Model):** This stage included the evaluation of the coefficient of determination (R^2), effect size (f^2), predictive relevance (Q^2), and hypothesis testing using the bootstrapping procedure to estimate path coefficients, *t*-statistics, and *p*-values.

RESEARCH FINDINGS

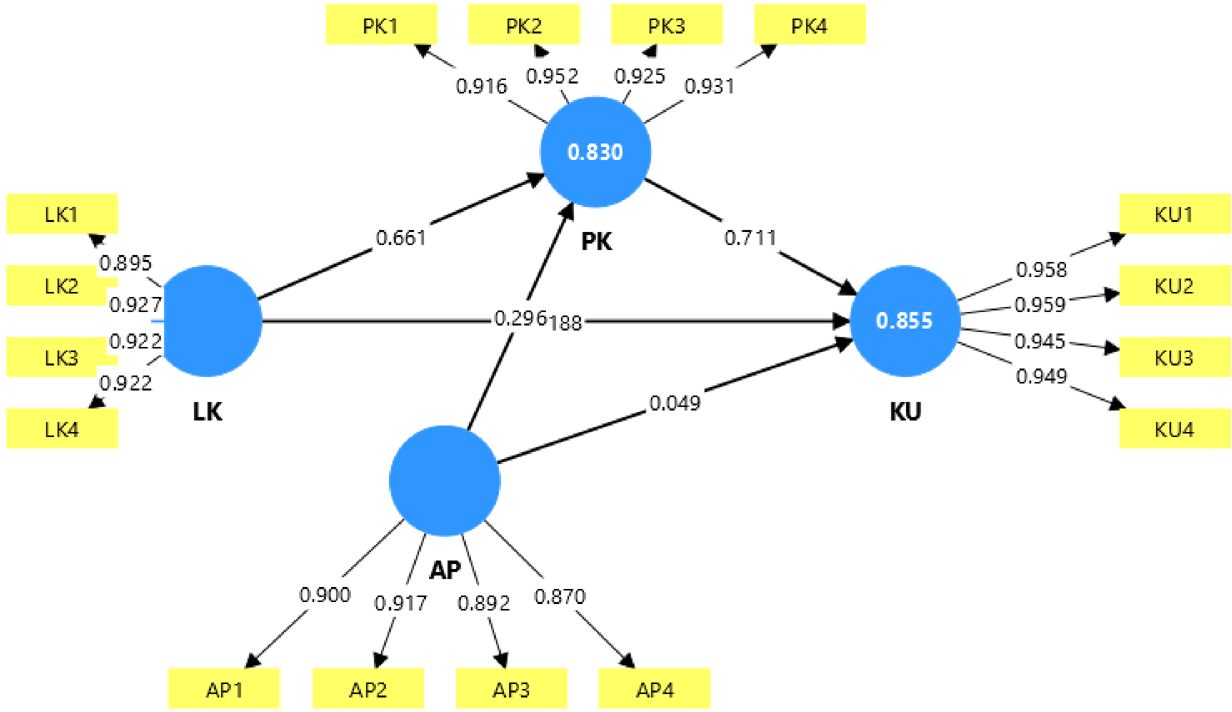

Figure 1. Result of the study

Table 1. Dimension

Variable	Dimension	Loading Factor	AVE	Notes
	LK1	0,895	0,801	Valid
	LK2	0,927		Valid
	LK3	0,922		Valid
	LK4	0.922		Valid
	AP1	0,900	0,908	Valid
	AP2	0,917		Valid
	AP3	0,892		Valid
	AP4	0,870		Valid
	PK1	0,916	0,840	Valid
	PK2	0,952		Valid
	PK3	0,925		Valid
	PK4	0,931		Valid
	KU1	0,958	0,867V	Valid
	KU2	0,959		Valid
	KU3	0,945		Valid
	KU4	0,949		Valid

Table 2. Relationship

Hypotheses	Relationship	Path Coefficient (β)	t-statistic	p-value	Decision
H1	AP → KM	0,049	0,569	0,570	Rejected

H2	AP → PK	0,296	2,473	0,013	Accepted
H3	LK → KM	0,188	1,236	0,217	Rejected
H4	LK → PK	0,661	5,506	0,000	Accepted
H5	PK → KM	0,711	4,818	0,000	Accepted

H1. The Effect of Access to Capital on MSME Performance (AC → MP)

Based on the structural model estimation, the relationship between **Access to Capital** and **MSME Performance** produced a path coefficient of **0.049**, a *t*-statistic of **0.569**, and a *p*-value of **0.570**. Since the *t*-statistic is below **1.96** and the *p*-value exceeds **0.05**, the results indicate that access to capital has no significant direct effect on MSME performance. Therefore, **Hypothesis 1 (H1) is rejected**.

These findings suggest that easier access to external financing does not automatically improve the business performance of MSMEs in Gorontalo Province. Additional financial resources are often not allocated efficiently to productive business activities or are utilized without adequate managerial capabilities. Consequently, increased capital alone does not directly translate into higher sales revenue or business profitability.

H2. The Effect of Access to Capital on Financial Management (AC → FM)

The structural model analysis examining the effect of **Access to Capital** on **Financial Management** yielded a path coefficient of **0.296**, a *t*-statistic of **2.473**, and a *p*-value of **0.013**. These results satisfy the significance criteria ($t > 1.96$ and $p < 0.05$), indicating a positive and statistically significant relationship. Accordingly, **Hypothesis 2 (H2) is supported**.

This finding confirms that adequate access to financing encourages MSME owners to implement more structured financial management practices. Improved financial liquidity enables entrepreneurs to organize cash flow more systematically, maintain disciplined financial records, and allocate operational budgets more effectively, thereby strengthening overall financial governance.

H3. The Effect of Financial Literacy on MSME Performance (FL → MP)

The analysis of the direct relationship between **Financial Literacy** and **MSME Performance** generated a path coefficient of **0.188**, a *t*-statistic of **1.236**, and a *p*-value of **0.217**. Because these values do not meet the required significance thresholds, **Hypothesis 3 (H3) is rejected**.

This result indicates that financial knowledge alone is insufficient to improve business performance directly. Although entrepreneurs may possess adequate knowledge of financial products, banking services, and risk management principles, such cognitive understanding does not automatically enhance business performance unless it is translated into practical financial management activities, such as systematic bookkeeping, budgeting, and disciplined financial control.

H4. The Effect of Financial Literacy on Financial Management (FL → FM)

The relationship between **Financial Literacy** and **Financial Management** produced a path coefficient of **0.661**, a *t*-statistic of **5.506**, and a *p*-value of **0.000**. These empirical results demonstrate a strong positive and statistically significant effect. Therefore, **Hypothesis 4 (H4) is supported**.

The relatively large path coefficient (**0.661**) indicates that financial literacy is a strong predictor of financial management capability within the structural model. This finding suggests that higher levels of financial literacy enable MSME owners to perform financial management more effectively by preparing comprehensive budgets, minimizing unnecessary operational costs, and making rational financing and investment decisions.

H5. The Effect of Financial Management on MSME Performance (FM → MP)

The analysis of the relationship between **Financial Management** and **MSME Performance** revealed a path coefficient of **0.711**, a *t*-statistic of **4.818**, and a *p*-value of **0.000**. Based on these statistical results, **Hypothesis 5 (H5) is supported**.

The path coefficient of **0.711** represents the strongest relationship within the structural model, indicating that financial management is the most influential determinant of MSME performance. Effective financial management practices, including systematic bookkeeping, efficient cash flow management, and disciplined financial planning, enable entrepreneurs to maintain financial stability, reduce financial inefficiencies, and support sustainable business growth and market expansion.

Table 3. Financial Management Results

Hypotheses	Indirect Relationship	Coefficient (β)	t-statistic	p-value	Decision
H6	AP → PK → KM	0,211	2,057	0,040	Accepted
H7	LK → PK → KM	0,470	3,956	0,000	Accepted

H6. The Mediating Role of Financial Management in the Relationship between Access to Capital and MSME Performance (AC → FM → MP)

Based on the structural model estimation, the indirect effect of **Access to Capital (AC)** on **MSME Performance (MP)** through **Financial Management (FM)** produced a path coefficient of **0.211**, a *t*-statistic of **2.057**, and a *p*-value of **0.040**. Since the *t*-statistic exceeds **1.96** and the *p*-value is below **0.05**, the indirect effect is positive and statistically significant. Therefore, **Hypothesis 6 (H6) is supported**.

These findings reveal that access to external financing alone does not directly enhance MSME performance. Additional financial resources contribute to business performance only when MSME owners can allocate and manage those resources effectively through sound budgeting, systematic bookkeeping, and rigorous cash flow management.

Furthermore, when compared with the results of the direct-effect analysis, the following pattern emerges:

- The direct effect of **Access to Capital → MSME Performance** is not statistically significant ($\beta = 0.049$; $p = 0.570$).
- The indirect effect of **Access to Capital → Financial Management → MSME Performance** is statistically significant ($\beta = 0.211$; $p = 0.040$).

Taken together, these findings indicate that **Financial Management functions as a full mediator** in the relationship between access to capital and MSME performance. In other words, access to external financing can only be transformed into tangible improvements in business performance when accompanied by effective internal financial management practices. This finding underscores the critical role of financial management capability in converting financial resources into sustainable business performance among MSMEs in Gorontalo Province.

H7. The Mediating Role of Financial Management in the Relationship between Financial Literacy and MSME Performance (FL → FM → MP)

The structural model analysis examining the indirect effect of **Financial Literacy (FL)** on **MSME Performance (MP)** through **Financial Management (FM)** produced a path coefficient of **0.470**, a *t*-statistic of **3.956**, and a *p*-value of **0.000**. These statistical results indicate that the mediating effect is positive and highly significant. Therefore, **Hypothesis 7 (H7) is supported**.

The relatively large mediation coefficient (**β = 0.470**) suggests that enhanced financial literacy serves as a key driver in improving day-to-day financial management practices, which subsequently leads to better MSME performance. Entrepreneurs' knowledge of financial products, investment management, and risk mitigation generates optimal economic benefits only when it is translated into practical financial management activities through structured and disciplined financial practices.

When compared with the results of the direct-effect analysis, the following pattern is observed:

- The direct effect of **Financial Literacy → MSME Performance** is not statistically significant (β = 0.188; $p = 0.217$).
- The indirect effect of **Financial Literacy → Financial Management → MSME Performance** is statistically significant (β = 0.470; $p = 0.000$).

These findings provide strong evidence that **Financial Management acts as a full mediator** in the relationship between financial literacy and MSME performance. In other words, financial literacy does not directly improve business profitability. Instead, it first enhances entrepreneurs' ability to manage cash flow, organize business operations, and implement sound financial management practices, which ultimately translates into sustainable improvements in business performance.

DISCUSSION

H1. The Effect of Access to Capital on MSME Performance

The structural model results indicate that **Access to Capital (AC)** does not have a significant direct effect on **MSME Performance (MP)** (β = 0.049, $t = 0.569$, $p = 0.570$), leading to the rejection of **H1**. This empirical evidence suggests that easier access to formal financing institutions does not automatically improve the business performance of MSMEs in Gorontalo Province. Additional financial resources tend to be allocated to cover daily operational expenses or short-term business needs rather than being invested in productive activities such as technological upgrading, market expansion, or product diversification. Consequently, the availability of financial capital alone does not necessarily enhance business productivity when entrepreneurs lack the managerial capability to allocate financial resources efficiently.

These findings reinforce the theoretical argument that external financial capital is essentially a passive resource whose contribution to business success depends largely on the quality of internal financial governance and managerial capability. Previous studies similarly suggest that financing schemes become effective drivers of business growth only when complemented by sound financial management practices and effective operational control systems.

H2. The Effect of Access to Capital on Financial Management

The analysis of the second structural path demonstrates that **Access to Capital (AC)** has a positive and statistically significant effect on **Financial Management (FM)** (β = 0.296, $t = 2.473$, $p = 0.013$), thereby supporting **H2**. These findings indicate that improved access to formal financing contributes directly to better financial management practices among MSMEs. Greater financial liquidity provides entrepreneurs with the flexibility to prepare operational budgets more effectively, manage cash flows systematically, and reduce the risk of short-term financial shortages.

From a theoretical perspective, external financing serves as an external stimulus that encourages business owners to adopt more structured financial reporting systems. Formal financial institutions, particularly commercial banks, generally require standardized administrative procedures and transparent financial reporting, which indirectly motivate MSMEs to maintain systematic financial records. This finding is consistent with recent literature emphasizing that access to credit constitutes an important foundation for strengthening internal financial management practices within business organizations.

H3. The Effect of Financial Literacy on MSME Performance

The structural model further reveals that **Financial Literacy (FL)** does not have a statistically significant direct effect on **MSME Performance (MP)** (β = 0.188, $t = 1.236$, $p = 0.217$), resulting in the rejection of **H3**. This finding indicates that entrepreneurs' financial knowledge alone is insufficient to improve profitability or expand market performance. Knowledge regarding bookkeeping, interest rates, investment decisions, and risk management remains merely a cognitive asset unless it is translated into practical financial management activities within daily business operations.

These findings confirm that financial literacy primarily represents potential knowledge capital rather than an immediate driver of business performance. To generate measurable business outcomes, financial knowledge must first be transformed into disciplined financial behavior. This result is consistent with previous empirical studies suggesting that the relationship between financial literacy and business performance is generally indirect and requires mediating variables, such as financial management capability, competitive advantage, or technological adoption.

H4. The Effect of Financial Literacy on Financial Management

Unlike its direct relationship with business performance, **Financial Literacy (FL)** exhibits a strong and statistically significant positive effect on **Financial Management (FM)** (β = 0.661, $t = 5.506$, $p < 0.001$), supporting **H4**. The relatively high path coefficient indicates that financial literacy is a major predictor of financial management capability among MSME owners. Entrepreneurs with higher levels of financial literacy are more capable of preparing comprehensive budgets, separating personal and business finances, maintaining systematic accounting records, and controlling unnecessary operational expenditures.

Conceptually, financial literacy represents a fundamental capability that shapes effective financial behavior. A thorough understanding of investment management and financial risk enables entrepreneurs to utilize their tangible resources more efficiently while minimizing potential business losses. These findings are consistent with the growing body of literature identifying financial literacy as a critical foundation for establishing high-quality financial management practices within MSMEs.

H5. The Effect of Financial Management on MSME Performance

The structural model demonstrates that **Financial Management (FM)** has a positive and statistically significant effect on **MSME Performance (MP)** (β = 0.711, $t = 4.818$, $p < 0.001$), confirming **H5**. This path coefficient is the largest in the structural model, indicating that financial management is the most influential determinant of MSME performance in Gorontalo Province. Effective bookkeeping, sound cash flow management, and prudent budgeting are key elements contributing to improved business profitability and long-term sustainability.

These findings empirically demonstrate that business success depends not merely on the amount of financial capital available or the entrepreneur's financial knowledge but, more importantly, on the effective implementation of sound financial management practices. Disciplined financial management helps maintain business liquidity, improve operational efficiency, and reduce information asymmetry during managerial decision-making. The findings also support previous research identifying financial management as the principal mechanism through which financial resources and knowledge are transformed into superior business performance.

H6. The Effect of Access to Capital on MSME Performance through Financial Management

The mediation analysis reveals that **Financial Management (FM)** positively and significantly mediates the relationship between **Access to Capital (AC)** and **MSME Performance (MP)** ($\beta = 0.211$, $t = 2.057$, $p = 0.040$). Given that the direct relationship between access to capital and MSME performance is statistically insignificant, the results confirm the existence of **full mediation**. Therefore, **H6** is supported. These findings suggest that access to external financing improves business performance only when financial resources are managed productively through effective budgeting, systematic bookkeeping, and sound financial control.

From a practical perspective, these findings imply that MSME support programs require substantial policy reform. Government initiatives and financial institutions should not focus solely on expanding credit accessibility but should simultaneously provide intensive financial management training and mentoring. Without adequate internal financial management capabilities, additional financial capital may merely increase operational inefficiencies rather than enhance business performance. This conclusion is consistent with contemporary research emphasizing the critical mediating role of financial management in maximizing the effectiveness of business financing.

H7. The Effect of Financial Literacy on MSME Performance through Financial Management

Finally, the mediation analysis demonstrates that **Financial Management (FM)** plays a positive and highly significant mediating role in the relationship between **Financial Literacy (FL)** and **MSME Performance (MP)** ($\beta = 0.470$, $t = 3.956$, $p < 0.001$). Combined with the insignificant direct effect of financial literacy on MSME performance, these findings further confirm that financial management serves as a **full mediator**, thereby supporting **H7**. This pattern suggests that financial literacy does not directly improve business profitability; rather, it first enhances financial management practices, including bookkeeping quality, cost control, and financial reporting, which subsequently contribute to sustainable improvements in business performance.

These findings strengthen the conceptual argument that financial literacy programs for MSMEs, particularly in developing regions such as Gorontalo Province, will have limited impact unless they are accompanied by practical training in financial management. Financial knowledge must be translated into disciplined financial behavior to generate sustainable competitive advantage. The results are consistent with previous empirical studies concluding that the effectiveness of entrepreneurs' financial literacy in improving business performance depends largely on the mediating role of internal financial management capability and managerial competence.

CONCLUSION

This study examined the effects of financial literacy and access to capital on MSME performance in Gorontalo Province, with financial management serving as a mediating variable. Based on the results of the Structural Equation Modeling–Partial Least Squares (SEM-PLS) analysis, several important conclusions can be drawn. First, financial literacy has a positive and significant effect on financial management, indicating that entrepreneurs' financial knowledge, cognitive understanding, and financial skills are fundamental prerequisites for developing sound financial management practices. Second, access to capital also exerts a positive and significant influence on financial management, suggesting that greater access to external financing encourages MSME owners to manage financial resources in a more systematic and efficient manner.

Third, financial management has a positive and significant effect on MSME performance, highlighting its pivotal role in improving business outcomes. Effective cash flow management, careful budgeting, and systematic financial record-keeping constitute the primary drivers of superior business performance. In contrast, neither financial literacy nor access to capital demonstrates a significant direct effect on MSME performance. These findings indicate that financial knowledge and external financial resources alone are insufficient to improve business performance unless they are translated into effective financial management practices.

Finally, the mediation analysis confirms that financial management functions as a **full mediator** in the relationships between financial literacy and MSME performance as well as between access to capital and MSME performance. This finding provides important theoretical evidence that strengthening internal financial management capability should be prioritized within MSME development strategies. Therefore, improving MSME performance and competitiveness in Gorontalo Province cannot rely solely on expanding access to credit or implementing financial literacy programs. Instead, these initiatives should be integrated with practical financial management training and continuous managerial assistance to ensure that financial knowledge and capital resources are effectively utilized to support sustainable business growth.

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